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# the MANAGEMENT REVIEW

MARCH, 1950

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Management at the Crossroads

How to Improve Your Correspondence

Function of the Interview in Personnel Administration

Industrial Peace Through Compulsory Arbitration?

Safety Program Cuts Accidents 36 Per Cent

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How to Package for Improved Salability

Rate Your Package

Efficient Planning for Budgeting

An Economist Looks at Pensions

Fidelity Bonds—Indemnity for Employee

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- PERSONNEL
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# GENERAL MANAGEMENT

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## Better Than We Think

**I**T is fashionable today to regard the world as experiencing a moral crisis and to look on the future of mankind as dark. A famous British novelist has written: "The nations of the West are all sick societies disintegrating under the impact of an advancing technology." An eminent American theologian has said: "There is so little health in the whole of our modern civilization that one cannot find an island of order from which to proceed against disorder." A distinguished Princeton philosopher has declared: "Our ideals and moral ideas have in the past been rooted in religion. But the religious basis of our ideals has been undermined, and the superstructure of ideals is plainly tottering. . . . It would therefore look as if the early death of our civilization were inevitable."

A case for pessimism is easily constructed. The record of the last generation looks bad. Two world wars within 30 years seem to mean that men have botched the handling of their problems; the spread of political philosophies which recognize no civil rights seems to mean that men are abandoning the idea of the supreme importance of the individual; the organized cruelties inflicted by more than one government upon tens of thousands of persons seem to mean that humanitarian sentiment is becoming weaker; the breakdown of accepted standards of right and wrong in some fields of activity and the absence of accepted standards in other fields suggest that the community lacks the moral purpose necessary to provide rules of conduct for a rapidly changing world.

The case for pessimism is persuasive. The best answer to the pessimists, how-

ever, is the record of the last generation or two. In the United States at least, and in most countries of Western Europe, this record is truly impressive and stamps the twentieth century as an age of remarkable moral progress. This statement will strike many persons as surprising, but the recent accomplishments of Western civilization, particularly in the United States, indicate deep and widespread concern for human well-being and a growing capacity on the part of the community to deal with its problems.

Let us consider a few of the important areas in which our country has made moral progress in recent times.

The community is showing more concern than ever before about what is going on, and is keeping track of what is happening more closely than ever before—a sign of the concern of men with the general welfare. One manifestation of the interest of the community in the conditions under which its members live and work is the large output of local, state, and national laws.

A more significant manifestation of the concern of the community with the general welfare is the collection and dissemination of statistics. Never before has a community kept track from month to month, and in some cases from week to week, of: How many people are born; how many die and from what causes; how many are sick; how much is being produced, sold; how many people are at work; how many unemployed, and how long; what prices people pay; how much income they receive and from what sources; how much they owe; what they intend to buy. These elaborate attempts of the country to keep informed about

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what is happening mean that the community is concerned with how its members are faring and with the conditions under which they live.

Great progress is being made in creating opportunities for individuals. Some of the increase in opportunities has been unplanned; it has been the result of technological progress and of the rise in per capita incomes. These two causes explain why, for example, the number of jobs has been growing faster than the population, and in particular why the number of professional and technical jobs has been growing several times faster than the total number of jobs. Much of the growth in opportunity, however, has been planned; it has been a result of acceptance of the idea that the abundance of opportunity should not be left to chance.

Few periods in the world's history have made more rapid progress than the last 50 or 60 years in breaking down the economic barriers to education. Back in 1890, for example, only one out of 14 children between 14 and 17 years of age was in school; by 1945, however, the proportion had grown to four out of five. The number of high school graduates has been increasing since 1890 about 13 times as fast as the population, and the number of college graduates six times as fast. The removal of racial and religious barriers to employment has been planned, and has taken a new form. Previous periods had seen the removal of legal disabilities; the present age has seen an attack on a less tractable kind of discrimination—discrimination embodied in hiring practices.

The community today is showing more interest in the welfare of its needy members than in any previous period. Today the country has over 9,000 employer-initiated pension plans, many plans negotiated by unions, a scheme of Federal old-age pensions which covers about three workers out of five, and a system of unemployment compensation which covers about seven workers out of ten. In addition, the country has a program of public welfare under which hundreds of millions of dollars are disbursed every year, and

it has many thousands of private sick-benefit plans. Payments on the basis of need now run at the rate of about \$12 billion a year and represent over six per cent of all personal incomes.

The community has greatly extended the area of civil rights, introducing civil rights into the internal operations of business enterprises where they had not previously existed. This great accomplishment is immediately the result of the rise of trade-unionism and the spread of collective bargaining, but the growth of the trade union movement has been greatly aided by public policies. The most vital aspect of collective bargaining is the framework of rules which are formulated in negotiations and which both men and managers must observe. These rules mean that decisions of management may be challenged by employees and that management may be compelled to rescind certain decisions which violate the rights of employees. In other words, at the very time that some governments have been going to great extremes in asserting the claims of government against the individual, the United States has been helping millions of individuals to acquire important new rights.

The remarkable moral progress of Western civilization in the twentieth century justifies the prediction that history will not regard the Western countries as sick and as disintegrating under the impact of technology. On the contrary, history will consider our era one of the world's great ages. Historians will regard present Western societies as remarkably vigorous, robust, and dynamic.

The present age has made an unprecedented effort to translate ideas about the good life into reality—to give men the opportunity to live the good life here and now, and to bring this opportunity to people of small means. Other ages have produced inspiring discussions of the nature of the good life, but the people of the twentieth century have not been satisfied with reflections and discussions. They have insisted that the educational opportunities of men of all classes be enlarged,

that economic and social barriers to opportunity be broken down, that men be given some minimum protection against the principal economic hazards. No other age has done so much to bring some mini-

num of education, opportunity, and security to all members of the community.

—BY SUMNER H. SLICHTER. *The Atlantic Monthly*, January, 1950, p. 46:4.

## Management at the Crossroads

By FRED RUDGE  
Fred Rudge, Inc.

DO millions of industrial workers believe the success of the company they work for means a happier, more secure life for them as individuals? Or do they look not to private business management but to other groups for the realization of their hopes and ambitions? If they believe business management will do the right thing for them only when forced to do so, we may well expect the United States to turn to Socialism or some other "ism" in response to the demands of its people.

Whether the United States goes to the right or to the left—politically, economically, and socially—depends in considerable degree on management's approach to the welfare of the millions who work in industry. In the light of this assertion, let us consider a few pertinent questions:

1. What concept has the average worker of the term "welfare"?
2. Why is the welfare problem growing with almost geometric intensity as far as industry is concerned?
3. What is industry doing to contribute to the security and well-being of its employees and their families, and its plant neighbors?
4. Why is it so vital that industry not only do the right thing but also strive to build employee and community understanding of its actions and how they promote the common welfare?
5. What will happen if industry doesn't win understanding of the fact that its basic objectives and the aspirations of millions of people for a better life are one and the same?
6. What can American industry do in the

years ahead to be an even more constructive force in helping provide a full measure of the good things of life for the millions whose daily lives it touches?

Millions of our people urgently desire protection—for themselves and their families—against the hazards of sickness, old age and unemployment. They do not believe they are finding that security in the provisions their employers are making for them. The Macfadden Wage Earner Forum reveals these typical worker reactions: Four out of five say companies should provide life insurance, but less than three out of five report their companies do. Better than four out of five believe companies should have a retirement program, but fewer than two out of five report their companies do.

The security people desire means not only money or services when they or their families are in need. Equally important, it means the peace of mind that comes with the knowledge that help will be there if it is needed. Nor is welfare to be interpreted only as financial security. Far from it. The industrial worker's welfare as he sees it is a question, too, of the completeness of his daily living—the satisfaction, if you will, that he gets out of his job. He wants to feel that what he does is important. He wants to go home at night believing he has made a contribution. He wants to feel he is a part of the company, not just a cog in the wheel. He wants to be informed of what goes on in his company so that his work

From an address delivered in Rio de Janeiro at the Pan American Engineers' Conference.

will be meaningful to him. These factors are all part of the good life to which he aspires.

In the early years of industry's growth, many workers when laid off could return home to the farm and there manage at least a subsistence. Now, however, urbanization and the lack of new frontiers have immobilized the industrial worker. In addition, the rise in the cost of living over the past decade has made virtually every existing welfare plan hopelessly inadequate. And there are more old people. By 1960, 13 per cent of our population will be 65 years or older, with a life expectancy of another decade.

Then, too, the increasing popularity of private hospital insurance plans is broadening people's knowledge of the fact that emergency expenses can be provided for in advance through small, regular payments. This is leading to a demand for ever-widening benefits. The unions are among those groups directing more and more attention to increasing employee welfare benefits. And the way is open for the unions to make their desires felt. A Supreme Court decision in 1949 has made it compulsory for companies to negotiate with unions on employee benefits. This opening wedge has already had a striking and far-reaching effect.

The government, too, is moving in. President Truman's National Health Insurance Plan is a proposal that the government meet people's medical bills with tax money. While the Plan has not yet become law, it is indicative of the growing sentiment for relieving in some guaranteed way the economic burdens imposed by illness.

Has industry been doing its share to promote employee welfare? In some few cases the answer is yes, but in most companies the answer is either a qualified yes or just plain no. It can be said, however, that the trend in the past 10 years has definitely been toward management's taking a greater interest in the welfare of its employees and their families.

A nationwide study made by the Conference Board in 1946 covered all types

of industry and compiled replies from about 3,500 companies which employ some 6,500,000 workers. Let us compare this with a similar study made in 1939:

1. Eighty per cent of the companies offered group life insurance to employees in 1946 as against 60 per cent in 1939.
2. Companies offering group health and accident benefits had almost doubled by 1946—going to 64 per cent from only 34 per cent in 1939.
3. In 1939 about 40 per cent of the companies offered any sort of additional group insurance. By 1946, 45 per cent offered accidental death and dismemberment benefits, 62 per cent hospitalization, and 48 per cent surgical benefits.
4. More than 65 per cent of the companies had safety committees in 1946; and in the manufacturing industries about 40 per cent had industrial medicine programs offering periodic medical examinations, first aid, and medical care, and educational programs on hygiene and accident prevention.
5. Pension plans had more than tripled, and the trend has been toward coverage of all employees, not just special groups; more liberal retirement benefits; minimum guaranteed income; retirement opportunity at younger age; broadened standards for pension retirement; and death or disability payments and widows' pensions.

It must be noted, however, that variations from company to company are tremendous. Side by side may be two companies—one with a comprehensive welfare program, another with few or no provisions for employee security. Naturally enough, the "have nots" want the same treatment their friends and neighbors are getting—and will turn to whatever source promises it to them.

Many managements have tried sincerely to provide added security for their employees and families. Yet through an apparent policy of keeping quiet about their aims and their actions, they have put themselves in the light of holding back, of not acting in their employees' best interests. There are even some cases in which employees are totally unaware of management's contributions to their security. Why? Because they haven't been informed in language they can understand.

Most significant is management's failure to win credit in another area. Management has failed to build understanding of our business system and how it operates in the interests of both labor and capital. Forward strides in welfare cannot be made on good intentions alone, but millions don't seem to have grasped the fact. They believe that "we can all work less and have more." They don't know that "there is no such thing as a free lunch." They don't realize that added security for millions of people depends on the wherewithal to do the job.

Private capitalism may not have developed all the answers to a full, secure life, but there is no denying the fact that it has provided more opportunity and a better standard of living than any other economy in world history. Unfortunately, the industrial worker usually hears only the failings of private capitalism. He is under constant pressure to trade in what he has now for something else, and he is led to believe that the fruits and dividends of our present system can continue under a different economy. Meanwhile, business management, with a few notable exceptions, says, "This isn't my problem."

Many businesses are currently going through a leveling-off period. Certain consumer wants have been temporarily satisfied. Supply lines almost empty since the war's end are now filled; hence, sales are down and in some fields of activity employees have been laid off. These are people who must provide for their families. Unless they are thoroughly sold on the virtues of a system based on freedom and initiative—with all its admitted and obvious faults—they will become prey to the Utopian "isms" whose ranks are always recruited from the malcontents, and eventually they will demand the election of lawmakers who promise them a different industrial system.

Management needs to recognize that its future depends not only upon company achievements within our present economic structure, but upon what happens as well to the economic structure itself. Every

company should devote time and some of its best brains to maintaining and strengthening that economic structure through building understanding, and through offering constructive leadership. There is no question in my mind that millions of our workers are going to demand not only financial security, but also managements they believe in and jobs they can leave at night with satisfaction, to return in the mornings with interest and enthusiasm.

First, management must provide within the company itself a practical, workable maximum of the things that contribute to employee security and job satisfaction. Management cannot wait until it is forced, before doing the best it can on its own. Second, management must promote within the company's plant communities privately sponsored activities that provide greater security and potentially increased economic development. There are literally hundreds of ways in which the talents of management can be used to advance our communities politically, morally, spiritually, and economically. Third, management must work for those things which make the private business system pay off for employee, stockholder, and consumer alike.

Most important of all, management must face the problem of communication. In order to find out the areas of strength and the areas of weakness, management must determine what its workers know about our economic system. What do they like and dislike about it and why? On this basis a company can map out a long-range program designed to get across to employees the information they need about the system as a whole and about their own company.

The next step is the formulation of company philosophy and policy, spelled out in terms people can understand. Here and all over the world there is great respect for the products of our industrial system because business has done a good job of selling these products. People will develop respect for business as a prime

factor in providing a fuller way of life only as management makes the facts known.

The industrial worker in the United States currently enjoys considerable security, and in comparative terms an exceed-

ingly high standard of living. Will he choose slowly and through hard work to advance his gains—or will he buy the promises of the proponents of a new social order? The answer is in the hands of American management.

### **What Do I Know About Myself?**

**W**HEN something goes wrong, how often does this short sentence of three words, in a tragic arrangement, bob up as the cause of the failure: "I didn't think!" No matter how many executives are questioned on the reasons for success, the overwhelming majority of replies always boils down to "The ability to think." How many of us take time to think out our problems, study our personal resources, know where we are going in business? Yet nobody can tell us more about ourselves than we ourselves. We are with ourselves all the time. If we don't know our capabilities, if we don't know where we are going, if we don't know where we even want to go, the fault lies entirely within ourselves.

Thinking is prerequisite to desired action. Plans for your own success must start in your own head. Business is a battle of brains, a marshaling of hosts of men and women on sides, who will happily and effectively carry out their leader's program. If you want to be at the head, or near the head, you must develop your capacity to think. Analyze your own desires, your ambitions, your present and potential resources. Your success will come geared to your ability to utilize them most effectively.

Here are a few "starters" developed in a discussion of this subject by a group of top personnel executives in a private meeting in New York, recently:

1. Am I making a profit for my company? How? Can any one else in my department do a better job if he were in my position? If so, why?
2. Does my boss generally accept my solutions to problems? Do I irritate my boss? (Too many times, too many trivialities?)
3. What abilities do I have that are of value to my company? What shortcomings detract from my job? Have I ever discussed these with anyone? Have any of my shortcomings stopped me from a promotion or advancement in the past?
4. What can I do to overcome my shortcomings?
5. What is my job ambition? (Write it out. Look at it.) What progress do I expect to make in the next year—five years?—10 years? Do I have the abilities to achieve this schedule? If not, what do I lack?
6. Have I selected, trained, and directed my subordinates so that they are operating at maximum efficiency?
7. Could I handle the job next above me? Have I developed a competent "understudy" who could run my department while I assumed higher duties?
8. What have I done recently to improve myself? How many ideas for improvement have I had in the recent past? Can I explain my ideas to my boss in such a way that he accepts them? Does he have to ask me questions?
9. Is my health good? Have I abounding vitality? Am I always ready to take on a tough job? Do I prefer to coast?
10. Is my home life happy? Does my wife "cheer for me"? Is my family working together or at cross-purposes?
11. Is my specific job-knowledge adequate? What studies do I follow in my spare time?
12. Is my general cultural knowledge adequate? Is my English good, my speech fluent, my ideas clearly and concisely expressed? Do people like to listen when I talk?

—Supervision 11/49

## Getting Acquainted with the Community

**E**VERYONE, whether an individual or a corporation, wants a good reputation in his home town and recognizes that such a reputation has to be earned. The fundamental responsibility of a company to its community is to provide work, as steady and well paid as possible. If a company prospers and expands its operations, the community prospers with it. Conversely, if a company falls upon hard times, the community suffers with it. And community good will toward a company all but disappears, at least temporarily, with unemployment. Presented here are the findings of a recent survey of the community relations programs of 85 firms representing a broad cross-section of industry.\*

Many companies consider it their duty and privilege to have a share in the responsibilities of citizenship in the community and to be a good neighbor. They consequently participate in community relations which have no direct association with their business. Here is the thinking of one firm that subscribes to this viewpoint:

What is a community entitled to expect from a large corporation whose operations extend into its confines? The same thing which it expects from a prosperous business man living in the community.

What are these things? That he conduct himself as a good citizen, that his actions are of good moral character, that he be active in the support of projects the community believes necessary for its welfare—in other words, that he contribute his share to the good of the community . . . .

It is the general opinion of the companies consulted that deeds do not speak for themselves. And the formula developed from Claude Robinson's Opinion Research Survey on the plant community—live right, tell employees about it, and tell the community about it—has been adopted by many firms as the basic concept of their community relations programs.

\* These companies include not only large corporations but also small companies with less than 500 and, in a few cases, less than 100 employees.

General Electric Company sets forth the objectives of its community relations work as follows:

(1) To be a good local business and to be known as such. (2) To be a good corporate and individual citizen, and then to be known as such. (3) To know what the community thinks. (4) To show what our company is and does—the kind of jobs we provide, and the significance of our operations to the community and to the nation. (5) To sell America's free industrial and economic system—recognizing that we must go far beyond the plant community to accomplish this.

Many firms have been carrying on community relations activities for years without any formal organization for that purpose. An essential for the success of an informal program, or of a formal program, is the vital interest of top management. In recent years, however, growing recognition of the importance of community good will has led many companies to provide a definite place for community relations in their organizations. When the function is centralized, it is most commonly included as a function of either the public relations or the industrial relations department. When companies have plants in a number of communities, the central public relations department may formulate the plans for community relations and act in an advisory capacity to the plant managers who are directly responsible for community relations.

Those companies which think of community relations primarily as an extension of industrial relations naturally reflect this viewpoint in their organizations. At York Corporation, for example, the director of employee publications and community relations reports directly to the manager of industrial relations. At Bethlehem Steel Company there is a vice president of industrial and public relations. The manager of community relations reports to him. Anything related to community relations clears through the manager of community relations.

Both as a guide in formulating a com-



munity relations program and as a periodic check on the effectiveness of the program, many firms are going into the community to find out what it thinks about them. In 1947 Minnesota and Ontario Paper Company employed Opinion Research Corporation to find out what the people of International Falls, Minn., where it is the chief industry, were thinking of the company and the community. Trained interviewers called on a large cross-section of the community and asked 40 questions. The returns were helpful in showing not only the areas of misunderstanding but also the population's sources of information. One question asked was: "Where do you get most of your information about Mando?" The sources most frequently cited were, percentagewise:

Employees, 40 per cent; observation (respondent at one time worked for the company or was then working there), 38; newspaper, 19; hearsay, 16; company publications, 16; officials (foremen, superintendents, bosses, etc.), 7. Also mentioned were union meetings, bulletin boards, and radio advertising.

Two questions, in particular, threw some light on what the company might do for the community. These were: "Taking everything into account, would you rather live here or in some other town?" and "In your opinion, what could Mando do for International Falls that it doesn't do now?" In reply to the latter question, the most frequently mentioned items were:

Sponsor recreational activities (25 per cent), give the town a good park (9 per cent), establish playgrounds for children (6 per cent), other civic activities (7 per cent), eliminate civic nuisances (11 per cent).

Following the survey a letter was sent to each employee summarizing the survey results, and a campaign was launched to tell people about the company.

Surveys of the public's attitude toward a company are used not only as an aid in planning community relations activities but also to check periodically the results of such programs.

Essential to good community relations is knowing the people in the community and giving the people an opportunity to know the company.

The Apparatus Department of General

Electric Company, at Fort Wayne, keeps in touch with the community by trying at all times to supply speakers, movies, and other program assistance to various luncheon clubs and school and church organizations in its community.

Few things create a more neighborly, friendly feeling than an invitation to visit the plant. A survey by Opinion Research Corporation in several cities showed that nearly three-fourths of the people questioned said they would like to visit their local plants.

One of the best ways to make friends in the community is to entertain small groups of people in the plant. A small group means an opportunity to exchange ideas with the visitor. And, if the group is selected from a particular occupational or social group in the community, care can be taken to stress their particular interests. Aluminum Company of Canada, Ltd., at its Arvida plant, invites local priests, local politicians from surrounding communities, students from schools, teachers, and other opinion leaders.

Some companies want to make open house a day for the family and welcome children of all ages. In this event, some amusements especially for children are included in the plans. At the 1948 open house of the Erie Works of General Electric Company, small boys took great pleasure in tooting a locomotive whistle, and at the open house at Schenectady the most popular feature with the younger set was the transportation display. There was usually a line of youngsters waiting for the opportunity of sitting behind the wheel of the fire truck.

Entertainment is frequently provided. The Monarch Machine Tool Company had two professional clowns who made merry with the crowd. Pitney-Bowes had a "vice-president-in-charge-of-paper-clips" who kept the guests amused and supplied the children with lollipops. At the open houses celebrating International Paper Company's 50th anniversary, several mills included special field days and programs for children.

Among the companies inviting school children was Bigelow-Sanford. Students



above the seventh grade were asked to the Thompsonville open house. Immediately following their visits, officials of the school in the area assigned, as an essay topic, the subject of the open house. When the assignment came to the company's attention, it offered prizes for the best essays. Winners were selected by a company committee and prizes were for-

mally presented by the local plant manager.

—From *Community Relations: Getting Acquainted With the Community*. Policyholders Service Bureau, Metropolitan Life Insurance Company, New York, 44 pages. (Issued to Metropolitan group policyholders; limited supply available to fill requests of other executives.)

## Getting Maximum Results from Management Consulting Services

IN the complicated economy of today, management consultants are both needed and valuable. The management that knows how to use them effectively has discovered the most efficient and economical way of reinforcing its own personnel on a temporary basis, to enable it to deal with special problems and carry through essential projects that require broad experience in management and the highest type of technical skill.

One management consultant sums up the basic philosophy of the members of his profession this way: "We feel the most important aspect of client relations is to be absolutely sure of a real need for our work and a real, honest desire on the part of the prospective client to make constructive use of the work we plan to do." Discussing the consultant's responsibility, he adds: "We approach a client entirely in the atmosphere of what is best for him in meeting a problem and solving it."

If these broad concepts are adopted at the very beginning of the client-consultant relationship, maximum benefits to the client are almost sure to result from the consulting services. There are, however, a number of other prerequisites to effective utilization of management consulting services and to efficient and economical performance by the consultant.

All available sources should be used to make sure that the consultant chosen is the right one. Firms with high profes-

sional standards will help through frank discussions of their past experience and the qualifications of their personnel. Friends in industry who have employed consultants, a banker, or ACME, which has an extensive file of data on consulting firms and offers its impartial services, are alternative sources. If full confidence between client and consultant is established at the start, a major obstacle to success has been removed.

There should be a complete meeting of minds before actual work begins as to the scope and objectives of the assignment being given the consultant. It is of prime importance that the consultant and the client agree as to objectives, problems, and needs that are to concern the consultant. Full discussion at this stage lays the foundation for really constructive service by the consultant. Most consultants insist that the best method is to describe the assignment in writing and have the written description, or the specifications, approved and accepted by the client.

The consultant will usually tell the client at this point exactly what is expected of the client's own organization; items like how much of the time of the client's executives will be needed, how much time other personnel will be expected to devote to specific work, and what working facilities the consultant will need.

Close cooperation between client and consultant is essential at all stages of the execution of the assignment, and particu-

larly when work is just getting under way. This cooperation frequently pays real dividends in accomplishments on the basis of mutuality of efforts and understanding.

First, the consultant should be promptly introduced to all the people with whom he is going to work. They should be informed as to why he is there and what he is planning to do. Employees should be told that information given the consultant is confidential and that he should have all the information he requests. Plant and department managers should be urged to give full cooperation to the consultant, thereby insuring that the consultant will get all the facts and viewpoints that should be taken into consideration.

Consultant and client should work closely together during the whole period of the consultant's service. In this way the best results can be secured, and false steps and lost time and effort will be avoided. Frequently access to top management is needed.

Maximum results can be obtained only by management's full and careful consideration of the consultant's findings and recommendations, and of the problems raised and solutions offered. Most consultants will discuss their findings and recommendations with management before preparing and presenting formal reports. Such discussion is exceedingly helpful to both client and consultant. When findings and recommendations are presented, the client can get the most from them by considering each one individually as well as considering all of them as a whole. If, for example, the client thinks that a recommended method of sales forecasting is not practical or work-

able in his organization, he should reject neither the recommendation nor the report as a whole. Discussion with the consultant of possible alternatives may bring a solution more nearly meeting the client's requirements than either the plan in use or the one proposed, and one that can be integrated with the consultant's other recommendations.

It is equally important that the client understand thoroughly and exactly what new installations the consultant recommends. Careful consideration and planning before installation begins will prevent later misunderstanding. At the same time, a clear agreement between client and consultant should be reached as to the client's and as to the consultant's responsibilities for (a) actual installation, including all transition procedures and work, and (b) operation of the new installation, and training of the client's personnel in the new procedures.

The importance of care in the original selection of a consulting firm and mutual confidence between consultant and client is underscored in determining the fee to be paid. Consultants seldom work on a flat-fee basis because of the nature of consulting work. However, careful guidance estimates of costs can be made and are submitted by reputable firms. These will be based on an estimated time for the work, an estimate of the number of persons of various grades who will be needed, and the consultant's past experience with the type of work involved. Again it should be stressed that the guarantee of a fee well earned is the reliability of the consulting firm that the client chooses.

—ACME Reporter (Association of Consulting Management Engineers, Inc.), January, 1950, p. 1:2.

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● IMPROVEMENTS AND EXPERIMENTS must be made constantly if a business is not to stagnate. One company president we know requires all management men to submit, once in six months, an "Improvement Report," the purpose of which is to list and describe all improved methods and techniques introduced in the period. The plan has worked admirably well and encourages managers to do more thinking about progress, instead of being content to stand still. As Bill Holler used to tell his Chevrolet salesmen, "We have to run fast these days to stay where we are."

—American Business 9/49

## **Your Vitality Cycle**

**D**O you find getting up in the morning so difficult that it's painful? This might be called laziness, but Dr. Nathaniel Kleitman, University of Chicago physiologist, has a new explanation. He has proved that everyone has a daily energy cycle.

During the hours when you zip through your work you may say that you're "hot." That's true. The time of day when you feel most energetic is when your daily cycle of body temperature is at its peak. For some people—apparently more than half of us, and more women than men—the peak comes during the forenoon. For others it comes in the afternoon or evening.

You can determine your own cycle by daily observation. Take your temperature several times a day for a week. The figures will show that a peak is reached regularly at about the same time every day.

You can't change your energy cycle, but you can learn to make your life fit it better. Habit can help, Dr. Kleitman believes. Maybe you're sleepy in the evening but feel you must stay up late anyway. Counteract your cycle to some extent by habitually staying up later than you want to and sleeping longer in the morning.

If getting up early is a problem, early to bed may help. Don't expect to change your sleeping hours easily, however. Your cycle can be kept under control, but it will be difficult.

If your energy is low in the morning, but you have an important job to do early in the day, rise before your usual hour. This won't change your cycle, but you'll get up steam and work better at your low point.

Get off to a slow start, which conserves your energy. Get up with a leisurely yawn and stretch. Sit on the edge of the bed a minute before putting your feet on the floor. Avoid the irritating search for clean clothes by laying them out the night before. If a cold shower is desired, make it lukewarm at first.

Whenever possible do routine work in the forenoon and save tasks requiring more energy or concentration for your sharper hours. Learning to live within our cycles will make us less irritable and more efficient.

—DARRELL HUFF in *Today's Woman* (Copyright 1949, Fawcett Publications, Inc.)

## **AMA Periodicals to Be Available in Microfilm Editions**

**T**HE American Management Association has entered into an agreement with University Microfilms, Ann Arbor, Mich., to make available to libraries issues of AMA's three periodicals—THE MANAGEMENT REVIEW, PERSONNEL, and MANAGEMENT NEWS—in microfilm form.

One of the most pressing problems facing all types of libraries today is that of providing adequate space for a constant flood of publications. Periodicals pose an especially difficult problem because of their bulk and number.

Microfilm makes it possible to produce and distribute copies of periodical literature on the basis of the entire volume in a single roll, in editions of 30 or more, at a cost approximately equal to the cost of binding the same material in a conventional library binding.

Under the plan, the library keeps the printed issues unbound and circulates them in that form for from two to three years, which corresponds to the period of greatest use. When the paper copies begin to wear out or are not called for frequently, they are disposed of and the microfilm is substituted.

Sales will be restricted to AMA members, and the film copies will be distributed only at the end of the volume year.

The microfilm is in the form of positive microfilm, and is furnished on metal reels, suitably labeled. Inquiries concerning purchase should be directed to: University Microfilms, 313 N. First Street, Ann Arbor, Mich.

## Alcoholism is a Problem for Management

OF all American workers, 3 per cent are inebriates. Close to a million and a half persons regularly employed in business and industry are or soon will be suffering from alcoholism—a sickness characterized by an intense, insatiable, and chronic craving for alcohol. They drink not because of love for liquor, enjoyment of its taste, or pleasure in the results it produces; they do so *compulsively*. Like the cancer victim, the diabetic, or the psychotic individual, the alcoholic cannot conquer his sickness alone; he must have outside aid.

Real or potential alcoholics are scattered throughout all occupational levels. The butcher, the baker, the lowliest sweeper and the loftiest executive may all be alcoholics. The malady does not respect its victim's race, religion, training, social status or upbringing. Nor does it show partiality to one or another company.

The precise dollars-and-cents toll paid by industry in lost efficiency and personnel does not for obvious reasons lend itself to statistical treatment, but certain facts and figures are available. The National Safety Council estimates the inebriate's contribution to preventable accidents to be some \$120,000,000 annually. A survey by the Yale School of Alcoholic Studies revealed that in 1943 over 1,370,000 inebriates were employed in industrial pursuits. These men lost on an average of 22 working days yearly because of acute intoxication; were absent due to sickness on an average of two days more than their normal co-workers. In the survey year, alcoholism was directly responsible for the loss of 32,400,000 working days. The same study showed 1,500 fatal accidents among the 1,370,000 alcoholics counted—more than double the normal rate. These men were also responsible for 390,000 work injuries. Dollar estimates of the annual loss to industry seem to run around half a billion dollars.

The saga of the typical alcoholic falls

into a somewhat uniform pattern. While still young, he begins to drink heavily and rather frequently. His work may suffer imperceptibly because of fatigue, he may be late for work, and may on occasion have a few too many cocktails at lunch, but he is a good worker and in the course of time is promoted to more responsible positions.

After two or three years of heavy drinking, he phones the job with increasing frequency to report a "bad head cold" or some other excuse for tardiness or absence. However, he has assumed a responsible job and has become more or less entrenched in the company. His absences are forgiven and his outbursts of irritability and surliness are overlooked or excused.

The process continues relentlessly. In five years he has graduated to morning drinking. For a "pick-up" he may keep a bottle on the job. Since alcohol is a sedative in a class with ether, his reactions are slowed and he gradually loses the ability to make rapid appraisals of a situation and to act promptly or correctly. His work suffers, yet he can usually cover up or bluff his way through for a few more years.

The large majority of alcoholics can be rehabilitated, and the tremendous cost to American enterprise can be reduced close to the vanishing point, provided modern knowledge of this sickness is utilized to the full. Yet pitifully little is being done at the industrial level; and if industry has been remiss, society has been many times more so. The medical profession for more than a century has recognized alcoholism as a sickness; yet today few hospitals will admit alcoholics, and most of these are not equipped to care for such patients. Public care of alcoholics is entrusted to the police rather than to public health officials. The fact that two-thirds of the country's county jails are populated by alcoholics is sad evidence of a serious societal failing.

American business has been blissfully unaware of the problem, its scope or true significance, but there have been recent signs of awakening. For example, Consolidated Edison Company of New York has announced publicly that it considers alcoholism a disability and hence a cause for retirement with pension. The same enlightened viewpoint has motivated E. I. du Pont de Nemours in its program for combating alcoholism, started in 1943. Du Pont seeks out alcoholics among its workers and facilitates their rehabilitation by referring them to Alcoholics Anonymous.

Like the physically handicapped worker, the reformed alcoholic feels a debt of gratitude to his employer. This feeling inspires him to work at maximum efficiency. Because he has experienced a drastic personality change and is fully aware of his own limitations and shortcomings, he is more tolerant of his fellow worker, is more understanding and sensitive, is a far better worker. "When an alcoholic stops drinking," one company reports, "he is somebody. He is a man of character and intelligence."

This is perhaps best evidenced by the 85,000 reformed alcoholics who constitute the membership of Alcoholics Anonymous. AA was founded in 1935 on the principles of spiritualism, self-help, hard-headed common sense, and inspired abstinence. An amorphous, loosely organized society with 2,400 chapters scattered throughout the country, it has little or no central control, maintains no lobbies in state or national legislatures, does not send out missionaries, does not propagandize for the participation of industry in its work. However, AA will cooperate with management by accepting individual employees and working with them in effecting a cure.

The efforts of AA are not always crowned by success. This they openly acknowledge, and it explains why this group cooperates with others that are active in the field of alcoholism. Chief among these is the Yale Plan, developed at the Yale University Laboratory of Applied Physiology. Here alcoholism is approached not only from the medical and

psychiatric points of view, but also from the historical, legal, physiological, and sociological viewpoints. The Plan has extensive research facilities and publicizes its findings through a scholarly journal and by other means. There is also the Yale Summer School on Alcoholic Studies, with an annual enrollment of 200 physicians, lawyers, clergymen, personnel managers, police officials, teachers, and others.

There are also two Yale clinics where alcoholics may go for treatment and care. Experience here indicates that for \$25,000 a community or a large concern (or several smaller concerns operating cooperatively) can establish a similar clinic, where alcoholics may be rehabilitated at a cost of from \$90 to \$140 per patient. Of the 1,100 persons admitted to these clinics to date, more than 60 per cent have been cured.

The Yale Plan and AA have done much to bring to the attention of the nation the seriousness of the alcoholic problem. Due in large measure to their efforts, several states enacted legislation to provide funds for the study and treatment of alcoholics in 1949. The medical profession has taken steps to open hospitals and mental institutions to persons afflicted with this ailment, and considerable progress is being made in industry. The precise extent of this progress, however, is in far too many instances not a matter of public record. Although measures against alcoholism are increasingly being taken by industry, the taboo against publicity remains a stumbling block to more rapid progress.

It is apparent that the first step to be taken by management is an open avowal that alcoholism is a sickness. If the high cost of alcoholism is to be reduced at the corporate level, re-education of both labor and management is essential. For this purpose, material available from AA, the National Committee for Education on Alcoholism, and other sources should be disseminated to all company employees. Other forms of company educational media should be used—posters, plant newspapers, rallies and the like.

The next step is to determine the precise nature of the problem in the indi-

vidual concern by means of a survey. On the basis of the findings, positive measures can be programmed. The most effective means for rehabilitating the alcoholic is through the clinic, in which physicians, psychiatrists, and other trained specialists work cooperatively on each patient. Private enterprise should support local alcoholic clinics and aid in the establishment of new ones.

Disregarding for the moment sentimental and humanitarian considerations, the rehabilitation of the alcoholic is an

economic necessity. The precision machinery of private enterprise operates most efficiently when manned by healthy, alert workers. Insuring such a labor supply is of direct interest to management. The means for solving the problem of alcoholism are available. Their cost is moderate. The returns of such an undertaking are well worth the time and energy invested.

—BY BENJAMIN MELNITSKY. *The Office*, December, 1949, p. 7:11.

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## OFFICE MANAGEMENT

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### How to Improve Your Correspondence

IT IS quite generally conceded that business correspondence as a whole, the kind that results from just "doin' what comes naturally" without any training, is inferior. For that reason, many companies have set up correspondence improvement programs.

The company with which I am associated, The Standard Register Company, Dayton, Ohio, has inaugurated such a program—the objectives of which are as follows:

1. To produce high-quality letters that will serve as creditable representatives of our company—letters that will build business and promote good will.

2. To produce these letters with a minimum of effort on the part of those involved.

3. To produce these letters at the lowest possible cost. This does not mean using cheap letterheads, having fast inaccurate typists, using preprinted form letters when individually dictated ones are desirable, or shortening letters to the point of curtness.

Some of the glaring weaknesses in the letters being sent out by Standard's letter writers prior to the inception of the training program were:

1. *Lack of standardization of make-up.*

Though pure block form with open punctuation was the model used by the centralized transcribing department, the secretaries' and stenographers' letters varied in form.

2. *Improper placement on the letterhead.* Out of 2,500 outgoing letters selected at random, approximately one-half were too high or too low, or the margins were uneven.

3. *Mistakes in grammar, spelling, and punctuation.* In the 2,500 letters analyzed, there were 80 misspelled words, and 300 serious mistakes in grammar or sentence structure. One of the most common was lack of agreement of the verb with the subject, such as, "Enclosed is the invoices requested." Other particularly frequent errors were "leave" for "let," "don't" for "doesn't," "myself" for "I" or "me," and "who" for "whom" or vice versa. No attempt was made to record the mistakes in punctuation, but they were numerous.

4. *Delays in answers or follow-ups.* Some letters were not answered for a month or so after receipt. A letter dated October 29 began: "By this letter we



acknowledge receipt of your order of October 1" and ended: "Thank you again for your order. You may be assured that we will handle it with our usual prompt and efficient manner."

5. *Inconsistencies of policies.* Two correspondents sitting side by side in the same department sometimes handled identical situations differently.

6. *Repeated dictation of the same or almost the same letters.*

7. *Statements that reflect unfavorably upon an individual, a department, or the company as a whole, as:* "Your letter of October 2 has finally reached this department after laying stagnant on the desk of a correspondent in the Order Department."

8. *Long, rambling letters.* When some were revised for effectiveness, it was found that in several cases as much as 10 minutes could have been saved in transcribing time—to say nothing of the dictator's time, and the recipient's time and patience.

9. *Trite phraseology.* Out of 800 letters selected at random, there were 1,440 whiskered expressions, or approximately two to a letter. The 10 most overworked were: *advise, per, in the amount of, enclosed herewith, enclosed you will find, attached hereto, we wish to acknowledge, we have received your letter, referring to your letter, and the writer.* (The last is one of my strongest aversions. Our general policy is to use "we" rather than "I," because in most instances the correspondent should be referring to the company rather than to himself. But the correspondent is urged to use "I" if for any reason it is desirable. Certainly he should not write, "When we talked with you on the telephone yesterday," if he alone did the talking. I agree with Mark Twain: "No one is entitled to refer to himself as 'we' except kings, editors and persons with tapeworms.")

10. *Long quotations from letters being answered or quotations of entire letters.*

11. *Negative statements, sometimes ridiculous, such as:* "We are very anxious

to be of service to you and hope you will favor us with a request for further information, or perhaps you might send us an order"; and "We are very sorry for the inconvenience and consternation you have suffered."

12. *Poor arrangement of material.* Many paragraphs contained as many as 20 or more lines. Seldom was material that needed to be emphasized set off by special indentions or listed in one, two, three order.

As a result of our correspondence analysis, we realized that we should have a thorough training program for both the dictators and the transcribers of letters. (The term "transcribers" includes secretaries, stenographers, dictating machine operators, and typists.)

We decided the best starting point in our program was the preparation of a correspondence manual to serve as a guide for correspondents as well as transcribers.

Our manual is entitled *Up-to-Standard Letters*. Its introduction answers two questions: (1) What are "Up-to-Standard" letters? (2) Why should such letters be written? The body of the manual, which answers the question "How may such letters be written?", has three main divisions:

1. *Requirements of a Good Letter*—is broken down into four sections: (a) Attractive and Efficient Mechanical Make-up; (b) Right Subject Matter; (c) Effective Presentation of Subject Matter; (d) Arrival at the Proper Time.

2. *The Correspondent*—sets forth the responsibilities of the correspondent, the qualifications he must possess, and the steps he must take in order to write a good letter.

3. *The Transcriber*—makes plain the responsibilities of the transcriber and gives detailed instructions for carrying out those responsibilities.

Every correspondent and transcriber has a copy of this manual, which is used as the textbook in our classroom instruction.

All work is done on company time, and assignments are not lengthy. Correspondents and transcribers are asked to read



assignments outside of classroom periods, and occasionally to do some written work.

It is difficult to get correspondents to discard whiskered expressions and to write in a conversational manner. I often say something like this:

Now Bob, if your wife had asked you this morning to bring home a loaf of bread this afternoon, and you later had to telephone that you couldn't, you wouldn't say, "As per your request of this morning, please be advised that the speaker will not be able to pick up the loaf of bread as he must remain overtime at the office. Regretting inability to do same and hoping that said action meets with your approval, I remain."

Bob gets the idea.

It is also difficult to get some correspondents to use pleasant expressions such as, "We are happy," and "It is a pleasure," because they feel they might sound insincere (and we do preach sincerity!). On the other hand, every once in a while someone will go haywire and write something like "We are glad to cancel your order"—which always makes me think of a credit manager in Dayton who telegraphed delinquents: "Must have check by December 30 or will sue. Merry Christmas." One customer wired back, "Go ahead and sue. Happy New Year."

Some of our letter-writing economies are:

1. Use of electric typewriters equipped with pinfeed platens in the transcribing department and in a few other departments, to assure faster typing.\*

2. Use of marginally punched continuous letterheads with interleaved carbon, so that the transcriber does not have to stuff carbons and insert paper before beginning to type a letter.

3. Standardized side margins of  $1\frac{1}{4}$ " for all letters, regardless of length, typed in the transcribing department. This practice permits the transcriber to type continually without changing margins. Differ-

ences in length are compensated for by varying the number of spaces between the parts of the letter.

4. Elimination of the word "Attention," before an attention notation; "Subject," before a subject line; and "P.S." before a postscript—unnecessary because the notations identify themselves.

5. Placing an asterisk in the right-hand margin opposite the line in the body of a letter in which an enclosure is mentioned, as well as an asterisk plus "Enc." at the end of the letter to indicate an enclosure. Though this practice requires a few extra seconds in typing time, it assures the actual enclosing of all material mentioned; therefore, it may prevent an extra letter on the part of the recipient as well as another in our company.

6. Use of window envelopes for general correspondence (not executive or that of a confidential or personal nature).

7. Use of handwritten notes rather than typed ones for brief messages sent within the office or to the field. We have several special forms for this purpose, some of which have a number of pre-printed items to be checked.

8. Use of form letters whenever practicable. The means of processing is dependent upon the nature of the message.

In setting up a correspondence training program, it is important that it be tailored to the needs of the individual organization. The preferred methods of one firm may not be the same as those of another. But any type of correspondence program is worth while if it results in improvement in the quality of letters, less effort on the part of those involved and less expense for the production.

—From an address by Sybil Lee Gilmore before the American Business Writing Association (published in *The Journal of Business Education*, September, 1949, p. 31:2).

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● SOME FIRMS have encouraged qualified executives and department heads to secure temporary school credentials through the local school authorities. Teaching worthwhile occupational subjects one or two nights a week can be a very productive community service in this age of curiosity about what makes business tick.

—*Personnel News Bulletin* (California Personnel Management Association)

## Don't Fancy Up Your Writing

**R**EAD this, from a trade magazine:

"The chief motivation for the purchase of curtains in industrial communities is practicality."

Now read this:

"In factory towns housewives buy curtains that wash well."

Try this one, from an accounting department memo:

"The finance director related that substantial economies are being effected in his department through increasing the time interval between distribution of data-eliciting forms to employing business entities."

Now try this:

"The finance director said his department is saving money by sending questionnaires to employers less often."

See the difference? The first examples, which are actual specimens, are ornate and foggy. They invite misunderstanding and confusion.

There is a trend toward simple writing. Leading magazines and newspapers found long ago that simple writing pays in popularity and circulation figures. Many business men are now realizing that simple writing will serve their ends better, too. So they are striving for simplicity in reports to stockholders and in promotion and advertising matter. They are even trying to make office memoranda intelligible at a glance.

A former Ohio newspaperman, turned writing expert, who has made a thriving business of helping industry correct its foggy writing, has found that 90 per cent of the required reading for employees, from salesmen's letters to company rule books, is college reading level or above. "Such material is largely wasted," he declares. "People toss it aside or misunderstand it when they do read it."

Here are some samples of how he dispels his clients' writing fog:

"Kindly advise me if your information gives confirmation to the conclusions I have herein outlined."

The improved version: "Tell me if you think I'm right."

Another:

"Proper procedure for the administration of your nasal medication."

Much better would be "How to use your nose drops."

—*Changing Times: The Kiplinger Magazine* 6/49

## In Defense of the Office Mule

**"STUBBORN as a Mule"** is a term usually employed in exasperation, but the trait it is aimed at can sometimes be a virtue.

As elsewhere in life, in the office world resistance to change is generally considered both old-fashioned and harmful. Harmful it certainly can be, when it is of the unthinking kind. But every mule-driver comes to know that the mule's stubbornness often has a soundly logical cause, and that it is always wise to check up on the reasons why the animal objects to some line of action. When a mule balks at crossing a bridge, sometimes the bridge is in so shaky a condition that it is very pleasant for the mule-driver to learn about it before rather than after the attempt to get across.

In the office especially, where some folks feel that the "yes men" are increasingly in the majority, and where at any rate resistance to change is much less of a problem than unthinking acceptance of ideas, suggestions, and programs, an occasional mule or two may prove very useful.

The real mule cannot talk; but, given a chance, many an office mule can give convincing reasons why a certain project is not altogether what it should be. There are few ideas so excellent as to warrant immediate and unqualified acceptance. When that kind of acceptance is forthcoming too often, the importation or breeding of an office mule is definitely indicated.

—*Office Management and Equipment* 11/49

## Putting the Business Form Together

SOME years ago I discovered with some surprise that Micky Mouse had only four fingers on each hand. In all the years that I had followed his fantastic adventures and antics on screen and in newspapers, I had not realized that Mickey Mouse was an exhibit for management.

"The reason," says Walt Disney, "is that the time and energy spent in drawing four fingers rather than five result in the savings of thousands of dollars every year." This was merely trivia to Mickey Mouse, but it was thousands of dollars to Walt Disney. The moral to management, of course, is that trivia multiplied by man-hours is trivia no longer.

When we talk about form design, we are talking about office trivia—trivia that has no significance whatsoever except in continual repetition. During the war, you may remember, rationing ushered in the greatest form printing job in history. We were introduced to millions of forms. The change in arrangement of any of the trivia on these forms could affect millions of actions, millions of persons. Form design can be as significant as that.

It is difficult to think of any routine, any procedure, any office activity without at least one form to its name. Today an office may be defined as the place where the life cycle of the form takes place.

Do you remember the play by Karl Capek about robots? Civilization had created mechanical robots to do all its work. They become so efficient that humanity became dependent on them. Then the robots rebelled and took over civilization for a time.

This is not so fantastic, perhaps, for we have something like robots in every office. Management creates forms from all the office details and trivia, and then management is dependent on these forms for a majority of its actions and decisions. Management has reason to keep these forms robots in some kind of control.

Again forms design can be as significant as that.

Many form designers start with listing all the different items that must be arranged on the form. When we are listing titles or captions, we are evaluating all the items as required data. When we begin actually to design, we group the related data as it should appear on the form. And as we do so, the form begins to arrange itself.

The form is an exhibit of methods simplification. A major part of the action in an office revolves about the form, and the way we design it will affect motions and methods. When we design a form, we must imagine all the action that takes place in the life cycle of the form.

In designing a form, we must first decide whether to use the box or conventional design. There are several advantages offered by box design:

- (1) Spaces are clearly defined for entries.
- (2) Items and groups of items are segregated.
- (3) As captions are in the upper left-hand corner of each box, they are visible to an operator as she types.
- (4) Captions above typing lines conserve horizontal space.
- (5) When boxes are numbered, they can be definitely related to detailed instructions.
- (6) Many believe there is less chance of error with definite boxes for each item.

There may be a few disadvantages:

- (1) Boxing may require more vertical spacing.
- (2) When all items are emphasized, no one stands out any more clearly than in the conventional design.
- (3) Some believe that the form lacks eye appeal and unity but this may be influenced by the printing.
- (4) Some forms do not lend themselves to boxing.

The conventional design may be defined as anything that is not boxed. Some of the advantages listed as indigenous in box design can also be applied to the conventional.

The answer to the question may well be that boxing is better for most forms and parts of others.

The layout of any form consists of

head, body, foot and, in some forms, a stub.

**Head**—The head of the form consists of all data that must be seen first. This may be for identification or for handling the form in procedure. In card records the very top is called the index margin and is reserved for filing information.

Here are some suggestions for designing the head of a form:

1. Custom has standardized the name and address in the upper left. To conform to good indexing practice, the arrangement should be last name first followed by first name and middle name or initial.

2. Custom has standardized the number in the upper right. In dealing with five digits or more, consider a break or dash: 542--245, 542--246, 542--247, for ready identification of the number.

3. Filing information should be as near the index margin as reasonable.

**Body**—Forms are so diversified that there may be much more to the head of the form than described, but the arrangement of the data is likely to follow the practices for the body of the form.

There are two general principles in arranging the data on the form:

1. *Make it simple.* The captions or titles are the guides for entry only, and when the forms go into use it is the entries that are distinctive and significant. These captions should be carefully selected, objective, and brief. Leave enough room to maintain order on the form. Captions placed above the typing lines allow for start of posting under them. Use check boxes and ballot type of answer, yes or no, to conserve time in making entries.

2. *Make it logical.* The data on a form flows something like a connected narrative, from left to right and so down the page. Related data should be grouped together, and good grouping is essential to posting and reference. Forms often relate to other forms. We post from one to the other or compare items. The data on each should be in the same sequence.

**Foot**—The foot of the form is not just for miscellaneous information or a place

for anything left over. It is part of the logical sequence of the form. Here are a few suggestions: (1) *Signature.* Can the title only be used and not the name of the executive? Many thousands of forms often become obsolete with changes in organization. (2) *Instructions.* The distribution of copies or any special information belongs in the foot. In briefing, consider who is to read them, because unskilled persons require more detailed information. If instructions are voluminous, use the back of the form. (3) Consider whether you should leave space for remarks and any additional special data. (4) If you have a program of retention schedules for records far enough advanced, you may want to print the schedule on this form. This, however, should be approached with care because schedules change and printing on the form may not be reliable.

**Stub**—Some forms such as spread sheets list titles or numbers at the left, and this area is called the stub.

1. Consider the data in the column headings with the items on the stub. Sometimes by reversing them you can get a better arrangement for size.

2. If the sheet is abnormally wide so that the eye has difficulty in following across the page, the stub may be repeated at the right, or even in the middle and right.

3. Leave margin enough so that punching or binding does not obscure any items.

4. When the stub is composed of consecutive numbers, every fifth or tenth digit should have a distinctive line across the sheet.

5. When the stub is composed of subjects, an outline form may be used to show primary and secondary titles. Caps and caps with lower case may be used with indentations to produce this outline. Lines across the page may also be used with the primary titles.

Following are a few over-all suggestions:

For every form to be posted on a machine, there is one rigid standard: It must conform in all details to the ma-

chine. Try the draft out for register and visualize it in continual use. While hand posting may be less expensive in many installations, the machine is more legible, and the orderly form has eye appeal and probably psychological advantages.

Conformance to the machine means spacing. No horizontal lines are needed because the machine makes its own typing line.

Begin as many postings at the left-hand margin as possible and use a minimum of tabular stops, because that economizes the time of an operator. When the draft is completed, take a ruler and draw a vertical line through the form at each point where the operator must start posting. Now study the draft again and try to align the captions to cut down the number of lines and so the number of tabular stops.

The grain of paper is highly important in the handling of forms in a machine and posting tray. The manner in which the fibers lie in the paper produces a grain

which should be up and down at right angles to the roll. Repeated turning about the roll of the machine has a tendency to make the paper curl. Therefore if the grain is wrong this tendency is encouraged and forms will curl and slump in the posting tray.

We promised to discuss trivia made of office details which have been selected to form a record. If in form design we put one form in use it would be simple trivia. We never do that. We multiply the form in use and so multiply each item on the form and all actions relating to it.

Like the hand of Mickey Mouse, it is trivia no longer.

It has been said on reliable authority that for each dollar spent to produce a form we spend \$17 in using the form. It is this 17-dollar element that is so important and that explains why form design is an exhibit of methods simplification.

—BY CHARLES O. LIBBEY. *NOMA Forum*, November, 1949, p. 5:4.

### **Instructing Employees on Telephone Habits**

**I**N any company, everyone who uses the telephone has an opportunity—and an obligation—to make friends and customers for the firm. To insure that everyone on its staff knows how to make the most of such an opportunity, one organization sent a memorandum to all its employees giving them 12 essentials in the proper handling of telephone calls. These 12 points are presented below.

1. Answer all telephone calls promptly.
2. When answering, give the name of your department and your own individual name, such as: "Purchasing Department—Miss Blank speaking."
3. Speak distinctly and in a pleasant, cooperative tone.
4. Don't transfer a call to someone else if you can take care of it, or have the proper person do so.
5. Keep a pad and pencil close at hand so that you won't have to look for them after the conversation starts.
6. If you use price lists or records, have them near the telephone.
7. Always say, "Yes, sir" or "Yes, Mr. Smith," and not "I see."
8. Use "thank you" frequently, where appropriate.
9. Always ask for an order. If a person asks the price of an item or other particulars about it, say, "May I place your order for (whatever it happens to be)?"
10. When you have finished talking, say, "Thank you, Mr. Smith" or "Goodbye" pleasantly, and replace the receiver gently. Let the caller hang up first.
11. Be courteous in all your telephone contacts. Don't interrupt, argue or be impatient. Listen attentively. Don't make the customer repeat because of inattention on your part.
12. When away from your desk or office, be sure that someone will answer your telephone and know when you will be back or where you can be reached.

From *Business Ideas Handbook*, by Prentice-Hall Editorial Staff, New York: Prentice-Hall, Inc., 1949. 666 pages. \$7.50.

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# PERSONNEL

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## Function of the Interview in Personnel Administration

By **DAVID MACK**  
Director of Personnel Administration  
William R. Warner and Co., Inc.

**W**HAT is the place of the interview today in our over-all personnel management structure? A great deal has been said, it seems to me, about the techniques, the art, the skill of interviewing. But what of the *function* of the interview in the economy of sound personnel administration? What is its role in our free enterprise system? What concept must the interviewer have of his function in our society in general, and in our personnel programs in particular, if the interview is to maintain its proper place in the entire scheme of things?

In seeking the answers to these questions, let us first consider the problem of terminology. For purposes of this discussion, let us take the view that when any personnel worker discusses a personnel problem or project with a rank-and-file employee or with a member of management, he is—for the moment, at least—an “interviewer.” Let us also—perhaps erroneously—use interchangeably the terms “personnel,” “industrial relations,” and “employee relations.” Since our field is still a relatively new one whose technical terminology has not yet “jelled,” it is preferable, I think, to take such liberties than to run the risk of appearing pedantic.

To begin with, the interviewer plays a vital role in the personnel program; therefore he must have a clear concept of its purpose. He must know why his company's budget includes an appreciable sum for the particular management function of

which he is part. Why has modern management come to recognize the personnel operation? What is the industrial relations program designed to accomplish, and why does the board of directors permit a budget for personnel interviewers?

We in the personnel field must never forget—though it is easy for us to do so—that basically the purpose of a personnel management program is that of helping the company to make money for its stockholders. The interviewer's salary is justified only if his day-to-day effort is effective toward this end. The interviewer is often confronted with engaging opportunities to do good for the sake of doing good. Hence frequently he will go adrift unless ever moored firmly to an awareness that the first interest of sound personnel management is to earn for the stockholders.

It is equally important that the personnel interviewer clearly understand the difference between staff operation and line operation, and exactly why it is essential to effective management that the personnel department operate in a staff rather than a line capacity. All too many interviewers either merely give lip service to this distinction or have never heard of it. In too many instances the personnel director does not make certain that the interviewers on his staff are completely “sold” on the importance to the entire business enterprise of the staff rather than the line position of his department. Does the

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From an address before The Personnel Club of New York City.



employment interviewer know *why* he must only screen and recommend, and never select employment applicants? Does the employee relations counselor know *why*, in almost every case, the employee should take his problem to his immediate supervisor before bringing it to the personnel department? In interviews dealing with salary changes, transfers, and discharges, why is it of utmost importance to the employee to understand that it is his boss and not the personnel department who is taking the action, and that the interviewer is merely aiding or augmenting his boss? Has the interviewer been permitted to gain the erroneous impression that this is because he is not as "important" as the direct-line supervisor? Or has it been made clear that it is not a question of importance, but rather that the moment anyone in the personnel department assumes direct authority he thus immediately weakens the company's entire administrative structure? It is easy for the interviewer to assume authority, or to give the employee the impression that whatever credit and thanks are due for action resulting from the interview are due the interviewer. No matter how helpful he may have been—as a liaison, an intermediary—in implementing proper action, it is essential to management's greatest effectiveness that the employee realize it is the line supervisor, usually his direct superior, who has taken action and to whom credit and thanks are due. It is the personnel department's function, and the function of the interviewer, to strengthen the line supervision, and it must always have been—both actually and in the mind of the employee—the direct line supervisor, not the interviewer who took the action.

It is only when the interviewer fully grasps these two fundamental principles—that his function as an interviewer is a staff rather than a line function, and that his primary purpose is to help the company make more money for the stockholders—that he can operate as an interviewer should.

Remembering that it is upon fundamental principles, rather than upon tech-

niques, that our interest is now centered, let us turn our attention to two themes which the interviewer should be careful to weave into virtually every employee interview.

At the heart of the totalitarian system of government is the concept that the state solves the individual's problems for him so long as he follows the formulae dictated by the state. Furthermore, in totalitarianism one of the working man's closest contacts with the state is his day-to-day job with the company by which he is employed, for that company is state owned and state operated. It is essential in that kind of economy that the employer solve many of the employee's problems for him, so long as he toes the mark. In a democracy, however, it is basic that the employee solve his own problem. It gives the interviewer a sense of power to try to solve the employee's problem for him; but his obligation to the employee and to the company is to use the interview as a means of strengthening the employee by showing him how to solve his own problem. Almost every interview calls for the application of this first principle.

Now the second. In virtually every kind of interview, the personnel interviewer is presented with a chance to strengthen the relationship between the employee and his boss—a relationship which means little in a society of slave labor, but which means much in a democracy of free wage earners. Often, however, the interviewer takes advantage of his contact with employees as a means of building up a kind of personal following among them. It is easy for the interviewer to make his relationship with the employees so flattering to himself as to wean them away, as it were, from their supervisors. His effort should be in exactly the opposite direction, i. e., in the direction of building up the bond between the employee and his supervisor. Each interview offers an opportunity for this.

In the employment interview, the applicant who has a vocational problem must resolve it himself. He alone must weigh this job against that, this opportunity against another, this company against some other. It is the interviewer's job to



lend perspective, answer questions of fact, and clarify the alternatives. But the choice is the applicant's to make and to the extent to which the interviewer, who is in a most strategic spot, makes the decision for the applicant, just to that extent does he perform a disservice to both the company and the applicant. If the applicant is to make a good employee he must enter into the employment contract with the conviction which is possible only if he has made up his own mind. Once on the payroll, the new employee must know that his boss chose him from among the other applicants. He must have no feeling that he was selected by the interviewer and assigned to his boss. He must have been his boss' choice. It is the interviewer's responsibility to make the new employee realize that he is the one for whom the boss has been looking. It is only in this way that the employee-employer relationship can commence on a firm footing.

Usually similar forces are at work in the case of the transfer interview, and here the interviewer's responsibilities are parallel.

Let us see how the two principles operate in a totally different kind of situation—the exit interview. If the employee is leaving after a long and congenial work experience, his relationship with his employer is likely to be good independently of any effort on the part of the exit interviewer. But in the case of a discharge, when the air is blue, personalities are clashing, and a good riddance is more expedient than taking the time necessary to make the experience a constructive one for all concerned—how can the interviewer help the employee solve his problem and build a favorable relationship between the employee and the supervisor who has just fired him? Every discharge can be accomplished either constructively or devastatingly and it is incumbent upon the personnel department, likely in the person of the exit interviewer, to make the experience as constructive as is hu-

manly possible. This is important not alone from the human relations standpoint, but also from the stockholders' viewpoint, from the angle of public relations. In two cases recently called to my attention, employees subject to discharge for incompetence came to the conclusion, in the course of interviews which preceded their projected discharge, that they would do well to leave their jobs and look elsewhere for work more nearly in line with their capacities. This was constructive. I once had a boss who was fired. Immediately afterward he walked into my office, sat down, and said, "Dave, I've been fired. But I liked it." His discharge came as a terrific blow to him, but was handled in such a way that he came out of his boss' office with a clearer idea than he had ever had before of some of his strengths and weaknesses and of the kind of job for which he was best prepared.

Now let us consider the opportunity for building sound relationships offered the interviewer by another type of interview—that which takes place in conjunction with the job evaluation process. A part of the evaluation procedure is the study of each job to determine its requirements and just what it involves. At least some of this information is arrived at through discussion with the incumbent and with the person supervising the operation. Now this interview can be thorough or perfunctory, general or detailed, short or long, and still, as far as the job evaluation itself is concerned, accomplish with varying degrees of success its purpose. When this interview is looked upon solely from this viewpoint, however, management misses an unequaled opportunity to build employee morale and sound human relationships. When investigating the content of a given job—just what its requirements are—why not take advantage of the chance to investigate at the same time just what problems the particular employee holding the job at the moment is having with it—even though this has no bearing upon the evaluation? Is this not

an excellent opportunity to show him that the company is genuinely interested in his job problems and in helping him solve them?

Granting that the importance of all these functions of the personnel department have been impressed upon the minds of all concerned, how can management determine whether personnel is doing a good job? How can its effectiveness be appraised? My answer to that question is a simple one: "By the number of times supervision voluntarily crosses the threshold of the personnel department, either in person or by telephone." A company's personnel job should ideally be done by its line supervision. It is the foreman and superintendent whose job it is to establish and maintain sound human relations on all organization levels. It is only because they will not do this without assistance—and occasional prodding!—that there is any justification for a personnel department, and the most reliable measure of the extent to which such a department is doing its job is the extent to which supervision seeks that assistance. This, in turn, is largely dependent upon the way in which the personnel department offers to help. Without question, the most important interviews held in any personnel department are the interviews with supervision—the discussions geared to helping foremen and supervisors, department heads and managers to handle their own employee relations problems. This is the counseling that really counts—that really produces dividends. If these interviews are helpful to supervision—so effective that supervision seeks them—then the personnel interviewer is earning his salt. Otherwise he is *not*, and in my opinion it is just that simple.

What part does the interview play in public relations? To begin with, it would be well-nigh impossible for a company having poor employee relations to build a sound community relations program, for the simple reason that a company's employees are its community. The extent to which the same parallel exists with

public relations depends, of course, upon many factors. But, it is incontrovertible that the influences in the community of a personnel department's interviews are tremendous. The impact on the home and neighborhood of a wage earner's promotion or discharge cannot be considered lightly from a public relations viewpoint. The degree of impact—and the precise nature of it—will be largely determined by the way in which the discharge or promotion was handled. And remember: It was handled in an interview or a series of interviews! Are your interviewers aware of their responsibilities to the community and to the company's public relations program?

In summary: (1) The interviewer must recognize himself as a part of a staff organization charged with the responsibility of strengthening line supervision and of helping supervisors to translate top management's human relations policies into action. (2) The interviewer's primary obligation is to help increase profits for the stockholders, though this by no means precludes his being of immense help both to the employee and to the community. (3) The interview—be it formal or informal—is the chief channel of communication in both directions between employees and management. (4) The interviewer must recognize the value of weaving into each employee interview an element of helping the employee to solve his own problem, and of building a firm relationship between employee and supervision. These two elements are essential in the free enterprise system. (5) The most important interviews, formal or informal, are those which the personnel department staff have with supervision, and the extent to which supervisors seek these interviews is a reliable index to the effectiveness of the personnel management operation.

In a sound personnel management program we must never underestimate the power of an interview!

### **The Bugaboo of the Garnishee**

WHEN an employee through a chain of unfortunate circumstances, or perhaps because of his own irresponsibility, gets into deep financial waters, he becomes a problem to management. Between him and his paycheck may stand the garnishee, which—aside from the inconvenience it offers him in terms of dollars and cents deducted—is also a headache to his company.

A poll of 30 representative companies was recently conducted by The Associated Industries of Cleveland to find out what management does when its employees are garnisheed. The usual procedure is to call in the employee involved, help him solve his difficulties if possible, and to advise against the danger of a recurrence.

Specifically, 23 companies assist the employee to get out of debt but do not discharge; five companies have a policy to discharge the habitual debtor but rarely make use of it; two simply honor the garnishee without discussing the matter with employees—do not discharge. Presented below are the verbatim comments of several of the survey respondents:

*Company 1.* Employee is warned and advised the first time he is garnisheed. The second time he is also advised, and warned that if it happens again he will be terminated.

*Company 2.* Has had few cases. Employee is called in, advised, and warned that company will not put up with that sort of thing. He is told that if it becomes habitual he may suffer discharge. Company has no definite policy on what it considers habitual. Each case is considered on its own merits.

*Company 3.* Very patient with garnisheed employee. Tries to help him out of difficulty. Has had no occasion to discipline or discharge anyone, and does not know how often a man's wages would have to be garnisheed before it would take action.

*Company 4.* No policy regarding discharge on account of garnishment. Helps employee get out of financial difficulty, and advises him on how to protect himself against garnishment in future.

*Company 5.* Company simply processes garnishee unless creditor to which employee owes money asks that company talk to debtor. In that case, the employee is called in for a talk, but the company never discharges on the grounds of a wage attachment.

*Company 6.* Upon receiving first notice, an effort is made to induce employee to arrange payment before actual garnishee comes through. If it does it is honored, of course, but employees are never discharged for personal debt.

### **Incentive Plan Aids Employees to Patent Inventions**

AN Invention Incentive Plan in effect at the Boeing Airplane Co. encourages employees and company to cooperate on aircraft inventions. Employees participate in the plan by signing an agreement to submit to the company all inventions or improvements made during employment "which relate to any subject matter with which the employee's work is or may be concerned or which relate to the business carried on by Boeing."

The Company pays all the cost connected with applying for and obtaining a patent. This generally runs to \$500 or \$600.

Glenn Orlob, Boeing patent engineer, says:

In addition, when we feel an employee's invention is patentable we pay him or her \$50 cash right then. If a patent is secured, we pay the employee another \$50. And then, if other companies use the invention, the employee receives 20 per cent of the royalties.

The remainder of the royalties paid to Boeing serve to finance the patent office and its payment of \$50 patent-application and patent-award checks to employee inventors.

"It's a system of distributed risks," explains Mr. Orlob. "Actually, most inventions don't pay off in large royalties. But even though they don't, the Invention Incentive Plan makes the invention profitable to the employee."

—Supervision 11/49

## Industrial Peace Through Compulsory Arbitration?

By KEITH W. BLINN

Professor of Law  
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**A**MIDST the current labor turmoil in which one crisis follows on the very heels of another, it is small wonder that economists, labor experts, and the public generally are working earnestly to achieve the elimination of work stoppages through strikes and lockouts. The volume of strikes occurring since the cessation of World War II, and the paralyzing effect upon the nation's health and economy of strikes in certain industries, combine to justify the concern of everyone for a workable solution to this evasive problem.

If our present devastating labor-management strife could logically be explained as a mere case of "delayed war jitters," or as a rash resulting from pent-up disputes, grievances, and differences suppressed during the war because of a common interest in unbroken production to fight a common enemy, the public could look hopefully to a future of labor peace. The numerous governmental controls and forced labor-management truce of the war years undoubtedly do account for a few of the present-day disputes; nevertheless, such a rationale is untenable to explain the breakdown of collective bargaining in the vast bulk of work stoppages during the present era.

Since the most elementary economics conclusively demonstrates that both labor and management suffer almost irreparable financial loss from any lengthy strike through lost profits and lost earnings, it is only logical to conclude that neither labor nor management gains strength or position as the result of a serious work stoppage. Accordingly, it must follow that in the majority of cases neither labor nor management desires a work stoppage. Why, then, should so many disputes result in the very thing which both parties do not want? The explanation must lie in an improper psychological approach to collective bargaining coupled with improper bargaining techniques.

First, we must thoroughly understand that the obligation for industrial peace in a free society, such as our own democracy, rests squarely on the shoulders of labor and management. The doctrine of Thomas Jefferson that "The best government is that government which governs least" is equally true in the field of labor relations. If we are to have free collective bargaining, it can best be achieved in an atmosphere where government assumes as minor a role as is consistent with its function to protect the national health and safety. It should not be an active party in every step of the collective bargaining process, nor should recourse to government be an assured final step in every case of collective bargaining. There has been a current demand by a sizable segment of the public, however, that government take an increasingly active role in collective bargaining through a system of labor courts or compulsory arbitration. In some states, the legislatures have already passed acts providing for compulsory arbitration in limited fields such as public utilities and hospitals. Expansion into other fields can reasonably be expected unless the trend is reversed.

Such an attitude, while in a sense a natural development, is nevertheless quite a dangerous philosophy growing out of the wartime government control of collective bargaining. During the war, the government's action in establishing the War Labor Board with its "government dictated labor-management contracts" was justified by the emergency; but, both labor and management tended to decrease their earnest efforts in the field of genuine collective bargaining and began to rely upon government either through force or choice as an active participant in the area of labor disputes. This tendency acted to weaken the entire foundations of collective bargaining as a method of resolving labor differences. It also caused a dulling

of the bargaining techniques of labor and management.

It is of the utmost importance that collective bargaining be approached in the proper psychological attitude. The negotiators must be chosen because of their patience and keen desire to reach an amicable agreement. They must be content to reach a successful solution slowly. It is extremely unwise for the negotiators to be harnessed with narrowly limited authority or to be hampered by publicly announced positions in advance of or during negotiations. Such publicly announced positions or demands cut off strategic retreats and foreclose face-saving compromises. Thus, in the recent steel strike, though final settlement was made upon terms apparently favorable to the union, public announcement of conclusions by the fact-finding board forced the union to remain adamant in its position, since it could not reasonably be expected that the union leaders would suggest to their constituents that they accept less than the governmental fact-finding board had recommended. Otherwise a strike might have been averted in the last minutes of free collective bargaining unhampered by publicly announced positions.

The continued use of compulsory governmental fact-finding boards or compulsory arbitration is a trend toward bringing government as an active party into all labor disputes. This will result in a disintegration of our traditional American

system of collective bargaining whereby the disputants controlled by the laws of supply and demand negotiate their differences. Such a system would reduce not only the incentives important to management but also would be equally disastrous to labor since it would seriously limit the right to strike. Abdication of our competitive system to a controlled economy is not the price that need be paid for industrial peace. There is another avenue through sincere collective bargaining.

Today more than 15,000,000 persons are members of some union. More than two-thirds of the workers in manufacturing are covered by collective bargaining agreements. The old philosophy that labor and management are "natural enemies" must be dispelled; and they must come to realize that—while there may be differences on the surface—they are mutually dependent upon each other, and that which harms one also harms the other. The position of government in labor relations must be clarified, and responsibility for labor peace must be reaffirmed as primarily a responsibility of labor and management. If labor and management approach the bargaining table in a proper psychological frame of mind, realizing that they and they alone must solve their disputes through the use of proper bargaining techniques, we can have industrial peace in a substantial measure without sacrificing basic concepts of our free competitive system.

### **Ford Plans \$100-a-Month Pension for Salaried Employees**

**A** NEW pension program for salaried employees is being inaugurated by Ford Motor Company, according to Henry Ford II, company president. The firm's present contributory plan will be merged with a new one, so that no employees will lose any credits accrued before the merger.

Exact provisions of the new program have not been worked out, but it will consist of a "basic plan" to be paid for entirely by the company and a "supplementary" plan on a contributory basis for employees receiving a base salary above a stated amount. This amount has been tentatively set at \$3,600 a year.

The basic plan will provide \$100 a month, including Federal social security payments, for employees retiring at 65 after 30 years' service. Employees retiring with less than 30 years' service will receive a proportionately smaller monthly benefit.

The supplementary plan will be on a voluntary basis, with the amounts of employee contributions and the exact scale of benefits not yet settled. Employees will not be eligible to participate in this plan until they have completed two years' service.

—The Wall Street Journal 11/21/49

## How to Keep Women Workers Happy

**S**INCE the war, a lot of women workers have switched from overalls and lathes to aprons and vacuum cleaners. And a lot of employers, to their own surprise, have watched the factory-to-fireside trek with regret.

One firm, however, the Soss Manufacturing Company, which for a quarter-century has been employing women in its Detroit plant, and hasn't had any severe turnover problems with women employees, says it takes some special treatment to satisfy the whims and fancies of feminine workers. But it pays off in a stabilized workforce, high morale, efficient plant operation.

Here are Soss' tips on how to keep women workers happy:

(1) Women in factories are as vain as their sisters outside. If they have grease-smudged faces, it's no sign that they don't care how they look. Soss knows that women want to primp and preen when their shift is over. So it provides extra-large, chrome-plated well-lighted mirrors in rest rooms.

(2) Women want locker rooms to be clean and ample. They grumble about conditions that men workers accept as a matter of course. So Soss has well-kept lockers with plenty of room for hats, shoes, and clothes—even for fur coats.

(3) Women want plenty of hot water for cleaning up after the day's work. And a woman's idea about what is "hot" differs a lot from that of men. So Soss now sees to it that the hot water in the women's rooms is kept at a higher temperature than elsewhere.

(4) Women's faces and hands are more tender than those of men, so women are more particular about the kind of soap you give them. Soss uses a top-quality liquid perfumed soap. It costs more, and doesn't get the grime off any better than the soap the men have; but the women's soap gripes stopped right away when the change was made.

(5) Soss found years ago that women workers favor a more personalized employer-employee relationship than is customary for men. So the rule is: Know women employees by their first names; take time out to talk to them; always let them know that the company knows what they're doing—and appreciates it.

(6) Women like to operate their "own" machines and equipment. They have a great pride of possession. They want "their" machines to be shipshape, and tools and supplies tidy. So Soss assigns machines to its women workers on a "for keep" basis, and never makes a change unless it is necessary.

—*Business Week* 11/26/49

## The Play's the Thing

**B**ECAUSE wise management is aware that the best employee is one who has the ability to relax off the job, most modern companies see that he has the opportunity. They sponsor recreation programs that range from the purely informal type usually found at small plants where the employees know one another intimately and nothing elaborate is needed, to those conducted by large organizations whose workforce would populate a medium-sized town.

To get an idea of the cost to employers of employees' off-work play time, The Associated Industries of Cleveland polled 30 firms in the Cleveland area recently. Following is a breakdown on costs per employee reported by several of the respondents:

One firm spends \$3 plus the cost of insurance in the event of accidents. This premium is in excess of \$1,700 per year. The company employs about 2,400 people.

Another company, that has 800 employees, reports \$3.50 per worker as the price it pays for employee recreation. This sum does not include Christmas parties, picnics, or house organs, which the management also provides.

One respondent, which reports that it has about 800 men and women on its payroll, estimates recreation programs cost approximately \$8.80 for each.

Another firm indicated that it has no budget as such. It donates only to bowling and golf; has about 1,200 persons in its employ.



# PRODUCTION MANAGEMENT

## A New Approach to Cost Reduction

**TO ACHIEVE** the higher productivity and lowered costs that manufacturers are striving for today, it is imperative that foremen make these management aims their own departmental objectives.

In order to act effectively to raise productivity, foremen must first have some reliable method of measuring the productivity of their departments.

Standard costs have been developed as a measure of productivity. These standards are attainable and represent what it should cost to produce goods. Since the information is available in advance, it should serve as an allowance, like a budget.

Management has not realized the full significance of this tool, however. The accumulation of standard costs has been left entirely to the accounting department. Here it has been found that standard cost methods have made it possible to collect detailed costs in two basic ways—by product and by department. In an endeavor to reduce clerical effort, similar products have been grouped together, and costs have been accumulated by product class. In some instances, departmental costs have been abandoned altogether, except for budgets. In others, while costs are accumulated by department, their effectiveness is restricted. Monthly statements are issued to foremen to show their performance against standard. From these, each foreman gains some understanding of the status of his department, but the information is usually inadequate for detailed analysis. Even if the detail is there, pertinent facts showing causes of excess costs may have been omitted, or it may be too late to take remedial action. In any event, a month has elapsed, and the losses sustained during that period cannot be recovered.

A method has been developed for insuring the foreman's knowledge of productivity day by day, enabling him to investigate production problems as they

occur and to take remedial action at once. This plan relieves the accounting staff of developing costs by department and makes each foreman responsible for reporting the productivity of his own department to the superintendent each day. Sufficient detail is included to permit management to take action that is needed but is beyond the authority of the foremen. Excess costs that are staff responsibilities are presented in a completely impersonal manner, thus avoiding any feeling on the foreman's part that he is "squealing."

The principal feature of this type of cost accounting is its usefulness for analytical purposes. In the old days, there was one figure for "burden" that was applied indiscriminately to all labor operations. Now that competition is becoming keener, it is essential for management to know its competitive cost position in regard to each specific product or product type. By segregating that part of overhead to be borne by each work station, each product can be made to bear its fair share of the total cost, including that part of idleness required in normal operation. The cost of idleness resulting from lack of orders is not part of true product cost. When it is included as such, apparent costs would rise, and there would be a tendency to raise prices beyond the true competitive position.

Cost of idleness due to lack of orders should be reported on the factory's profit-and-loss statement, for it is up to top management, not factory and supervision, to do something about this problem. Top management must decide to increase the sales volume, reduce the capital investment or, if it is a temporary situation, take the losses. But the facts must be available to make the decision.

This record takes the form of a "daily production report," based on the forms normally used within a department—manufacturing orders, material requisitions, and time cards. Move tickets may

*The Management Review*



DAILY PRODUCTION REPORT																	DATE	5-27-1949
DEPARTMENT				SALES COSTS		PRODUCTION COSTS					COST OF IDLENESS							
MACH NO.	OPER NO.	PART NO.	OPER NO.	LACK OF ORDERS	SET UP	OPERATION	SPOIL-AGE	TOTAL COST	VALUE PRODUCT	WORK NO. SCHED.	LACK OF MAT'L	LACK OF INST.	LACK OF TOOLING	LACK OF HELP	LACK OF POWER	REPAIRS	OTHER DELAYS	REMARKS
1201	442	21608	20		1.00	22.00	2.00	25.00	24.00									
1202	537	14101	16		1.25	16.50	1.50	19.25	20.20				5.50					FIXTURE F-14101 MACHINE ONLY NO OPERATOR
1203	-	-	-	14.00														
1601	423	19404	10			38.00	1.90	22.90	42.00									
1701	246	12367	12		2.00	34.12	1.40	37.52	38.00		2.63							
1801	319	16420	20			23.00	1.15	24.15	27.00					16.00				OPERATOR LATE
2001	224	10316	10			49.00	2.50	51.50	55.00							7.00		
SUB-TOTALS					4.25	162.62	10.45	197.32			2.63		5.50	16.00		7.00		BUDGET
TOTALS				14.00				197.32	206.20					31.13				17.20
WALLACE CLARK & COMPANY																		S. Hume, FOREMAN

be used for quantitative information. Time cards must be prepared for all idle time of machines and operators, as well as for all productive time, in order that the data may be complete.

The report is subdivided into three sections to indicate the responsibilities of sales, of the foreman, and of the service departments, respectively. The exact terminology of the report is dependent on the nature of the manufacturing enterprise. The terms used below would be suitable for a department in a large machine shop:

- A. Sales costs:
  1. Lack of orders;
- B. Production costs:
  1. Set-up costs;
  2. Operation costs;
  3. Spoilage costs—including excess material used;
  4. Total costs;
  5. Standard value produced;
- C. Idleness costs:
  1. Available work not scheduled;
  2. Lack of material;
  3. Lack of instructions (drawings or operating instructions);
  4. Lack of tooling;
  5. Lack of help;
  6. Lack of power;
  7. Waiting for repairs;
  8. Other delays.

Since this is to serve as the foreman's own report to the superintendent, he is going to verify the accuracy of the information and take steps to correct matters within his control before the superintendent sees the report. Soon, most foremen will give sufficient consideration to these problems to prevent the occurrence of most costly delays. Some costs are unavoidable. This fact is recognized by their allowance for anticipated idleness.

Each foreman knows that the "daily production report" is a true measure of the day-to-day productivity of his department. Through the relationship between allowance and accomplishment, his efficiency can be evaluated. Costs are segregated in such a manner that his productive efficiency is obvious to his superiors and himself. Losses due to lack of orders or failure of staff services are not attributed to him. Instead, the superintendent knows about them and takes corrective action. Thus many of the foreman's problems are eliminated, his value to the company is on record, and he will strive to improve that record.

—BY GEORGE G. SALTFOORD (Wallace Clark & Company). *Modern Management*, October, 1949.

## **Materials Handling in American Industry—1950: A Report of Progress**

**A** PICTURE of the growth of mechanized materials handling is a picture of the health of American industry. The survey findings reported below present such a picture, and show the vigorous pursuit of the "one best way" to handle goods by an open-minded, progressive, healthy economy.

The survey covered over 200 key companies in American industry. Of the responding companies, over 50 per cent employ more than 500 workers, while the balance have labor forces of 100 or more people.

The respondents to the survey approximate 20 per cent of those polled. The survey showed the growth of mechanized materials handling from application by 1.1 per cent of the respondents around the turn of the century (1900) to application by nearly all the 20 per cent responding (19.1 per cent) in the period 1946-49.

A reported industry-wide average reduction of 10.7 per cent in over-all production cost provides the most important single fact to emerge from the survey. This is an impressive figure in the face of the fact that 30 cents of every production dollar is required to pay for handling alone. It is also a clear-cut indication of the degree to which companies not yet fully mechanized may expect to achieve cost reductions by adopting mechanical materials handling equipment.

This average cost reduction figure also provides a yardstick for mechanized companies to use in rating the effectiveness of their handling systems against the rest of industry.

Less than three years is required for the average company to repay its initial investment in handling equipment. After the equipment has been in service longer than 34 months, subsequent savings to the average company will amount to pure profit.

The significance of the results of this poll are surprisingly broad in their application to industry's current position in mechanized materials handling. Above all, the 10.7 per cent average cut in the total cost of finished goods stands out. This figure alone should provide the clincher for those companies that have not mechanized or are debating whether to increase the scope of their present handling programs.

Since the figure is an average, many companies in every segment of industry may expect to achieve still greater reductions through well-planned, coordinated programs of mechanization.

Another significant figure is a whopping 28.1 per cent reduction in direct handling costs which, according to survey respondents, has stemmed directly from mechanization of those operations.

The survey shows that the responsibility for selection and operation of materials handling equipment is surprisingly evenly divided between the operating and the engineering groups of executives. And although at present a relatively small percentage of companies apply the title, "Materials Handling Engineer" to the man responsible for these functions, that title and its attendant responsibilities are constantly gaining wider acceptance throughout industry.

—Modern Materials Handling 1/50

### **SPRING PRODUCTION CONFERENCE**

***The Spring Production Conference of the American Management Association will be held on Monday and Tuesday, April 3-4, 1950, at the Hotel Statler, New York.***

## Safety Program Cuts Accidents 36 Per Cent

**A**CCIDENT frequency rate cut 36 per cent; the seriousness of accidents cut 63 per cent—that is the record established by the Oliver Corporation in the 12-month period, July, 1947, through June, 1948.

The corporation has seven plants employing 9,000 people, all located in the middle west. The company produces a complete line of farm tools and manufactures tractors for industrial use. Extensive foundry and forge operations are carried on in three plants, and one plant alone has several hundred thousand process cards delineating the methods and machinery which must be used in the manufacture of tillage tools. It is obvious that Oliver's safety problem is complex and not susceptible of cure by application of a few fundamental rules.

Oliver attacked the problem through organization, promotion, and competition—all backed by an intense and earnest interest on the part of top management personnel. C. C. Drake, a man with manufacturing background both as a worker and a supervisor, was brought in as safety director. He selected an assistant in each plant to be responsible for the safety performance of that unit. Foreman meetings were organized, at which slide films on timely safety subjects were shown and safe working practices explained and emphasized. Safety committees were formed to stimulate employee interest through participation.

Plant bulletins were issued warning of serious unsafe working practices and explaining how they could be eliminated. Photos of serious accidents were given wide distribution in an effort to make employees conscious of potential hazards, while safety posters were placed on plant bulletin boards to emphasize the importance of industrial safety.

It is the thoroughness with which old techniques are employed, rather than any startling innovations in accident prevention, which is significant. A written report on every injury must be forwarded by the department foreman to the plant safety director. The latter analyzes this

report, conducts his own investigation, talks to the injured and to witnesses of the accident, then takes steps to assure that there will be no repetition.

Oliver safety personnel are indoctrinated with the theory that there is an explanation for every accident—that accidents don't just happen. Safety directors are continually attempting to anticipate accidents and eliminate potential hazards. Continuous education is undertaken to teach employees safe working practices. Safety directors have the authority to stop machines or processes which they consider hazardous and to keep them idle until the danger is eliminated. This gets things done in a hurry, for no department foreman can afford to have his machinery idle.

Plant managers and safety directors constantly check housekeeping practices, since they know that safety without good housekeeping is an impossibility.

Alva W. Phelps, company president, introduced competition into the program by offering a trophy to the plant with the best record at the end of a year's contest. Experience was to be evaluated in the light of three factors—frequency of accidents, their seriousness, and housekeeping. Results have been astonishing. In July, 1947, Oliver had a cumulative frequency rate for accidents of 29.3. By April of 1948 this figure had been reduced to 19.7. The seriousness of accidents likewise dropped from 2.3 to .832. At the same time that these reductions were being effected, the national average for the farm machinery industry was rising.

The firm's tangible savings through reduction in the seriousness of accidents alone will exceed \$30,000 per year, and insurance companies estimate indirect savings to be approximately four times the direct. It is in this intangible element that the executives of the company are most interested, believing that an effective safety program easily pays for itself in terms of fewer grievances, increased production, reduced labor turnover, and a happier workforce.

—*Mill & Factory*, July, 1949, p. 134:2.

### **Air Cargo Volume Increasing, but Better Facilities Needed**

**A**IR cargo is here to stay. It has proved that merchandise of a relatively high value per pound or cubic foot can be most economically transported by air, at an over-all saving to both the shipper and receiver. The speed advantage of air freight permits merchants to keep minimum inventories, meaning low capital investment and high merchandise turnovers—of particular advantage during periods of falling prices.

A partial list of goods moving by air freight might include securities from one bank to another, checks between large clearing houses, printed matter such as editions of magazines and daily newspapers, clothing to assure that latest fashions on display are immediately available for delivery, and sea foods such as lobsters, clams and shrimp—which are today moving by air in large volume.

During the past 11 years, the volume of air cargo—which includes both air express and air freight—has risen from 2,200,000 to an estimated 135,000,000 ton miles for 1949.

Before air cargo volume can reach the size it rightfully deserves, however, it will be necessary that aircraft specially designed for cargo service be used, handling costs reduced, and proper warehousing and distributing facilities be erected in order to lower operating costs, give the shipper and receiver the best possible service, and earn a profit on the capital investment of the operator.

The only aircraft now available for cargo service are certain types of converted passenger planes. Though these do an excellent job, they are not suitable for cargo, since their loading floors are so high above the ground that conveyors and lift devices are required for loading. As these are used but a small portion of the time, they are expensive; moreover, careless handling of these devices often causes damage to flying equipment. Smaller aircraft do not have sufficient capacity to be economical, and loading is difficult because their floor slopes upward from the rear loading door.

Few airports in the United States have proper warehouse and cargo handling facilities, because of the high cost. Large platform type buildings used as air cargo terminals are necessary at the airport. Docks of truckbed height must be made available for the loading and unloading of commercial trucks and trailers shuttling merchandise back and forth between the traffic generating centers and the airport. Such platforms must be of suitable height to load and unload aircraft by conveyors, movable fingers, or gangplanks.

Separate cargo terminal facilities should be provided at each airport where cartage agents could deliver or pick up large shipments of air freight by a single truck movement to expedite transportation to and from the airport. Damages to air freight shipments, such as flowers and baby chicks, exposed to the elements while awaiting trucking, are a serious problem which will not be overcome until air cargo terminals are erected.

—From an address by CHARLES FROESCH before the 70th annual meeting of The American Society of Mechanical Engineers

### **Mechanical Power on Farms 10 Times That in Industry**

**B**Y record increases in use of motorized equipment, American farmers have stepped up their production one-third since 1941. They did it with no increase in acreage in use and despite a steady drift of workers away from farm jobs.

Today the nation's 5.8 million farms have over 11 million motor vehicles and tractors—or four million more than prewar.

This equipment generates about 750 million horsepower, or 10 times as much mechanical power as is used in all of American industry.

It helps farmers produce more for each hour of labor; and it helps them distribute their products more widely than ever before, with sharp reductions in spoilage and extra handling.

The record shows that in the past decade the American farmer with his motorized equipment has far outstripped the gains made by industry in increasing the productivity of an hour of labor.

—*Automobile Facts* (Automobile Manufacturers Association) 1/50

# MARKETING MANAGEMENT

## Teaching Salesmen by Dramatics

ONE of industry's most successful training devices—"role-playing,"—is much like the kindergarten game in which youngsters play the roles of such grown-ups as locomotive engineers and airplane pilots. Although the role-playing idea is not new, there are still few, if any, devices that are so effective in educating individuals of all ages.

Today, a handful of leading concerns are experimenting with a highly-developed sales education version of the role-playing principle, and their experience thus far indicates they may have one of the best ideas yet for training new salesmen and stepping up the efficiency of experienced men. Already, the new program has produced a number of convincing performance records.

The essence of the role-playing idea is simple. Trainees, whether salesmen or factory foremen, actually act out, under trained supervision, realistic situations they are likely to confront in their work. Customarily, the acting takes place before a group of other salesmen whose job it is to pick holes in the technique and, if possible, improve upon it themselves.

Under the new plan, however, salesmen do more than act out the job of selling a prospect. In addition, other essentials of effective selling—the handling of complaints, prospect selection, the handling of merchandise displays, and the like—all are demonstrated through role-playing. Companies which are using the idea believe this acting out of the salesmen's job, in all its details, has been chiefly responsible for a number of subsequent sales increases.

The new role-playing technique bears little resemblance to the type of sales clinic in which a sales manager simply

challenges his men to "sell me" and then presents them with a number of sales-resistance arguments, some of them far from realistic. Instead, the new method presents a practising salesman with realistic selling conditions; the "customers" he undertakes to sell do not confront him merely with sales-resistance arguments; rather, they are trained to reflect the actual problems of actual dealers, thus preparing a salesman to cope with similar problems when he is in the field.

One firm using the new training idea is the Industrial Tape Corporation (a Johnson & Johnson subsidiary) at New Brunswick, N. J. There the program started this way: First, a comprehensive manual was compiled detailing each step in the work of an ITC salesman, e.g., what he must know about products, how prospects are selected, how interviews are opened and kept moving, how complaints are handled, how sales are closed.

Each week-long ITC training session has followed the pattern set by the manual. At night, a group of eight to 14 participating salesmen study a section of the manual; next morning, they are quizzed on the subjects discussed, and the rest of the day is spent acting out typical situations suggested by the manual.

During these clinics, a company man portrays the prospect. His job is to confront the role-playing salesman with situations that will test his skill and resourcefulness, agreeing to buy only when the presentation deserves a sale. At times, the prospect is busy; at other times, he is angry or absent-minded.

In some sessions, salesmen undertake to sell prospective new dealers. In such instances, the training director alone knows the size of the customer's store,

his annual volume, and whether he carries ITC products. The salesman's job is to learn these facts and utilize them in making the sale.

To test a salesman's resourcefulness, the training director confronts him with a series of typical selling problems. Half way through a presentation, a trainee may discover that the man he is talking to does not have authority to sign orders—a fact he should have learned at the outset. Sometimes the interview is interrupted by a customer appearing; the problem then being to resume the presentation skillfully when he has departed. At other times, the salesman may be confronted with product complaints, in which case he must handle them to the customer's satisfaction.

About two-thirds of the time of the role-playing is devoted to handling situations likely to arise in customer interviews; the remaining third is spent in acting out phases of the salesman's work that are not conducted in the customer's presence. Typical examples are: the preparation of reports and expense accounts, the selection of leads, even the writing of distinct numerals.

At most firms where the role-playing idea is being used, salesmen are paid regular base rates while participating in the sales clinics, and in addition receive "commissions based on demonstrated sales ability."

Servel, Inc., at Evansville, Ind., is using the idea in conjunction with a series

of slide films designed, among other things, to train a salesman to spot the person who has authority to make the final buying decision.

Servel's slides also give a salesman tips on which features of the company's products to emphasize.

Companies which are using the role-playing technique have seen considerable evidence of its effectiveness. During the initial quarter of this year sales of Industrial Tape's "Texcel" soared. Servel has found that the new plan has pepped up door-to-door salesmen. After a role-playing clinic for utility company salesmen in Minneapolis, sales of the company's gas refrigerators doubled. Swift & Company reports a sharp drop in training costs. According to Swift, new salesmen once required up to three years to repay the cost of their training and indoctrination; with the new plan they "pay for themselves" in three to six months. The cost of training by the new role-playing method is estimated to be about one-sixth the cost of field training.

Early experience indicates that the highly developed role-playing technique is stimulating sales at a time when good promotional devices are at a premium. If so, a technique that started in the kindergarten, and was improved upon in the university and psychological laboratory, may become the means for producing tomorrow's best salesmen.

—*Commerce Magazine*, September, 1949, p. 20:3.

## How Chains Are Selecting Locations

**H**IGHLIGHTS of present thinking and policy on selecting locations, as determined from a canvas of a large number of chains in varied fields, are:

1. In the metropolitan areas, heavy decentralization has become an accomplished fact, and most chain store executives are convinced the trend will continue. In most lines, the locations being selected today are either in new business

developments supported by new housing or in the smaller, outlying communities which are part of metropolitan areas.

2. Most chains are showing increasing interest in shopping center locations, particularly those which are planned as complete business communities. In most instances, these are integrated with home and apartment building projects.

3. Large parking areas are now consid-



ered absolute "musts" by chains in most lines.

4. More thought is being given to the purchasing power of areas to be served than to the mere population count.

5. Some store closings are occurring in older districts. More will occur, executives believe, as those districts recede further in purchasing power. The point at which an older store is closed is usually related very directly to lease cost. As older business property becomes less desirable, rental rates usually go down. Policy of most chains is to renew old leases if the rates have been lowered sufficiently to permit a somewhat profitable though scaled-down operation. Such lease renewals are usually on a shorter-term basis than the earlier leases. Few chains consider it desirable to reduce floor space in order to continue in an older location.

6. Careful study is being given the desirability of remodeling and enlarging individual stores in older areas. The point of decision here often has to do with how much business will likely be pulled away from the area within 10 to 20 years by new districts.

7. The trend toward larger stores in most lines is leading to longer-term leases. Whereas the cost of a small store would be amortized over a five- to 10-year period, costs of today's larger stores in most instances have to be amortized over 10- or 20-year periods or even longer.

8. While decentralization is occurring rapidly, many executives believe that established locations in central business districts of large cities are still valuable. They point out that while the percentage of business being done in central business districts is diminishing, normal growth of population means that large volume can still be done downtown.

9. Plans for transportation improvements in large cities are being followed closely by the chains. Some executives are thinking as far ahead as 10 or 15 years in making plans for locations at points which will by then have become strategic as a result of new mass trans-

portation facilities or automobile arterials. Some companies are investing in vacant ground at now remote points while it may be obtained at very low prices.

10. Policy of most companies today relative to buying real estate is more flexible than it was several years ago. While a majority of chains now prefer to have their capital in merchandise rather than in real estate, the general attitude is that if a really important location can be obtained only by purchase, the purchase should be made and a build-sell-lease deal can be arranged later.

Today, as in earlier years, there is need for thorough research in advance of decision to seek a location in any area.

The following advance steps have been found desirable before deciding to see a location of any type:

First step: Gather general background on the community in which you are interested. Check population, bank clearings, and extent of supporting industry or agriculture that creates buying power.

Second step: Check the extent of existent competition in your line in this community. Determine what per cent of the current potential has been developed. Consider possibilities of community growth in population and purchasing power. From analysis of locations, facilities, merchandise assortment and personnel of your competitors-to-be, decide whether the community is served adequately. Finally, check the trading area of the community and evaluate it and consider the possible effects of other nearby communities in syphoning off buying power.

Third step: On the basis of information gathered to this point, decide whether your investment will be well placed here. There are two schools of thought on the matter of competition in relation to locations. Some chains believe that where an area or community is served well by established competitors, they are better off in seeking new fields for cultivation. That belief is growing. On the other hand, some chains still contend that it pays to get in where the heaviest buying power exists, regardless of the

extent of competition. Most companies are agreed on this point: Where heavy competition is already established, the cost of getting business should be analyzed carefully before a decision is made.

Fourth step: If a given community is found sufficiently desirable to justify a location despite heavy competition, determine whether location or facility will be most important. If competitors have stores of adequate size that are well-equipped, well-stocked and well-merchandised, then a heavy traffic location may be your only effective weapon. On the other hand, if something less than a 100 per cent location would permit you to offer the consumer extra advantages in facility,

lower operating costs that would permit lower prices, more parking convenience or other benefits, then that type of location might be preferable.

Fifth step: Before making a final decision to go into direct geographical competition with established business houses, check the sources of the buying power you wish to tap. In some instances, it is possible to cultivate buying power at locations far removed from present spending areas. Careful study of the distribution of population, of traffic flows and buying habits is essential.

—By LUCIUS S. FLINT. *Chain Store Age*, January, 1950, p. 13:5.

### **Sell by Product? . . . Or Sell by Market?**

**T**HERE are headaches as well as profits in a lengthening line of products. Sooner or later, as a company spreads into more markets, it faces a dilemma: Is it better to break the sales forces down according to product? Or according to the type of market?

The longer and more diversified the list of products, the greater the problem. Such, for instance, has been the fix the Gulf Oil Co. was in. Just after the war, Gulf found that its customers wanted to buy more of everything it had to sell. That was good. Trouble was, though, that it had more kinds of goods than ever before to sell. And as the variety mushroomed, so did the Gulf marketing setup—in many cases, haphazardly. So the company inaugurated a new marketing plan.

Boiled down to its barest essentials, the difference between the old and new Gulf marketing systems is this: The marketing department used to be organized so that a salesman would specialize in selling, say, lubricating oil. If his customers needed fuel oil as well, Gulf would send a fuel oil salesman in behind the lubricating man. Thus sometimes one customer would have as many as five Gulf salesmen knocking on his door.

Now, Gulf is organizing its sales system by markets rather than by products. That means that one salesman calls on each account and takes care of all the needs of that particular customer. If he's a salesman in the transportation market, for example, he'll call on the air lines and steamship companies; and he'll sell them fuel oil, lubricating oil, gasoline, and whatever else they want.

On the advice of an outside consulting firm, Gulf divided its customers into 10 markets—farm, airport, service station, home heating, marine, commercial, contractor, industrial, fleet, and transportation. All 10 are the responsibility of Gulf's divisional sales vice-president. The 10 are further grouped into two broad departments: retail marketing and direct marketing. Under the retail department, are grouped the markets in which products reach the consumer through a dealer for the most part—rather than directly through a Gulf salesman. Purchases are usually in small quantities for direct consumption. In the direct marketing group, most of the customers are contacted directly by Gulf salesmen. Frequently some knowledge of engineering is needed in making the sale. Product specifications are usually pretty important in selling; quantities purchased are large. So these markets require a specialized and different approach.

Gulf expects its new marketing setup to bring a number of economies. It will, for one thing, cut down on duplication of effort; for another, it will allow salesmen to become familiar with specialized markets, rather than with specialized products.

—*Business Week* 10/8/49

## Standards for Evaluating Marketing Research Studies

**M**ARKETING research can be a highly useful tool to all advertising, sales, and management executives. It can also be a very misleading tool, if the research is not properly conducted and carefully evaluated.

It is impossible for an advertising executive to function efficiently today without the assistance of marketing research. The days of operating by guess and hunch have long since passed. Consciously or unconsciously, every advertising executive makes use of marketing research in some form or other many times daily. Here are a few of the questions advertising executives have to answer in which marketing research can be used to supplement professional advertising training and experience: size of the advertising budget; breakdown of budget by product; number of ads to be scheduled; size and type of ads; best copy appeal. And these are only a few of the problems that marketing research can help solve.

The important point is: There is *good* research, and there is *bad* research. While there has been a vast general improvement in the quality of research, much remains to be done in evaluating and applying marketing research. Presented here is a check list of pointers that will aid marketing and advertising men in making a sound evaluation of research findings. These were formulated as the result of a recent study of the subject by the Association of National Advertisers.

1. Is the *purpose* of the research clearly and briefly stated early in the report?

The purpose of a marketing research study should always be clearly and briefly stated early in the report. The title of the report should reflect the purpose of the study.

2. Was the proper *kind* of research used to answer the problem?

There are several types of marketing research, e.g., personal interviews, telephone interviews, mail questionnaires, salesman's reports, analysis of sales records, panels, results of tests, diary records, audits. One type of research produces

more accurate results on a given kind of advertising problem than another type. The selection must be based on sound judgment of the technical problems involved and how best to approach the desired respondent. For example, it is much better to determine consumer buying habits direct from consumers than to survey them second-hand through dealers.

3. *Who* did and who paid for the research?

A research study is no better than the persons who conducted it. Thus it is highly important to evaluate their qualifications.

4. Is there anything unusual or irregular about the *timing* of the research?

Timing is of the essence in all marketing research work. It has been given too little consideration. Many survey results are unintentionally colored by improper timing. Unusual market conditions must be avoided. To cite one example, and there are hundreds, immediately following a price reduction is a poor time to make a dealer survey on prices and discounts. Dealers are so disturbed by the losses they have taken on their inventory due to the price cut that they cannot give good sound opinions as to future price and discount policies.

5. Was the *questionnaire* or *report form* properly constructed to achieve the objectives?

It is easy unintentionally to develop biased questions or questions that will be misunderstood by the respondents. All questionnaires and report forms should be tried out on a small representative cross-section group of respondents before they are used in the main survey.

It is not uncommon to make questions too general. Straight simple factual questions are best. Care must be used in opinion-type questions to avoid getting rationalized answers rather than direct answers.

Be on guard for survey findings pertaining to questions of pride, prejudices and confidential personal habits.

Every marketing research report should

contain a copy of the questionnaire used.

6. Was the *field survey* properly conducted and supervised?

Marketing research findings are no better than the quality of the interviews. The user of marketing research studies knows very little about the qualifications of the interviewers or the manner in which the interview was conducted or supervised. Every marketing research report should contain a complete copy of instructions to field interviewers or the covering letter in the case of mail questionnaires.

7. Is the sample *representative* of the market or area which should be covered?

The most desirable basis for information on any subject would be a complete census. This is not necessary and is too costly. Since all surveys are a shortcut to a complete census, however, it becomes vitally necessary that the sample be representative of the whole.

Some of the things to keep in mind in this connection are the distribution of the sample according to: cities, towns and rural areas; age and sex groups; standard of living; nationality, education, geographic and occupational distribution. A good marketing research report gives complete details on all matters pertaining to the representativeness of the sample.

8. Is the sample *base* for each comparison large enough for that particular comparison?

While size cannot be completely ignored, the important point is that representativeness of the sample, just discussed, is far more important. Too many advertising executives feel that there is something infallible in large numbers and seem to forget all about representativeness.

The sample base depends upon how many detailed breakdowns are to be made and what degree of accuracy is required. If charts are used, figures should accompany them. The base figure for all per cents should always be shown. A very

practical guide for determining the adequacy of size as well as representativeness of the sample is to include a few control questions so that the makeup of the sample can be compared with known facts.

9. Does the *presentation* of the facts follow good statistical and research standards?

The best survey in the world is of little value unless the facts are presented so that they can be readily understood by busy advertising, sales, and management executives. Watch out for tricky and misleading presentation devices and the omission of pertinent facts such as, who made the survey, who paid for it, when was it made, where was it made.

10. Are the *limitations* of the findings clearly set forth?

Since marketing research work is expensive and all marketing research falls considerably short of being a census, each study by its very nature has many limitations. It is customary for research report writers to make a statement regarding the limitations of their studies. It is most important in the evaluation of marketing research to know the limitations of the study.

11. Is the *interpretation* in line with the facts?

Here's where we run into the familiar elephant story. No two persons will draw identically the same conclusions from a given set of facts. Do not therefore be too ready to accept the interpretations of survey findings as presented.

The foregoing are standards for evaluation—not guides on how to make a research study or how to apply research findings. They are guides on how to evaluate a study for possible application.

—From an address by R. E. Davis before the 40th Annual Meeting of the Association of National Advertisers, October, 1949.

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● **COSTS TO SELL:** It cost the average large department store \$1.24½ to handle each sale in 1948—13½ cents more than in '47 and 57½ cents more than in '39—according to a study by the Harvard Business School. Seven of the 13½ cents increase went to wages. Average sale was \$4.35 vs. \$4.02 in '47 and \$2.10 in '39.

—National Sales Executives Digest

## 21 Yardsticks to Measure Sales Performance

ONE sound way to attack the problem of rising selling costs and declining volume is to measure, at regular intervals, the effectiveness of your salesmen. This involves three basic steps: (1) Define the salesman's job. (2) Select from your job definition the controlling factors that determine the yardsticks you'll want to use. (3) Collect the facts on which the yardsticks are based, and make provision for their regular assembly in the future.

You can simplify the problem of job definition by putting down in writing answers to the following type of questions (not an all-inclusive list):

(1) What do your salesmen sell? Industrial products? Durable goods? Consumer products? Non-durable goods? How long is your product line? Do all your men sell all your products? Do gross margins differ widely between products?

(2) Whom do your salesmen sell? Industrial consumers? Domestic consumers? Wholesalers? Retailers?

(3) How do your men spend their selling time? Calling on retailers only? Calling on retailers and wholesalers? Calling on wholesalers only? Calling on other classes of purchasers? How does the average salesman's time break down, percentage-wise?

(4) How do your men spend their non-selling time? Demonstrating? Training junior salesmen? Working with jobbers' salesmen? Investigating complaints?

(5) How do you pay your salesmen? Commission or commission and drawing account? Straight salary? Salary plus?

(6) How do you handle salesmen's expenses?

(7) Where do your salesmen work? In a precisely defined territory? In a general area? Do your men call only on certain types of customers?

(8) Do you specify your salesmen's tasks in any way? Sales quotas? How detailed? Number of calls?

The measure of a salesman's effectiveness can generally be reduced to a comparative handful:

*What he sells*—how many of his customers buy the full line, the gross profit that his operations produce.

*How much he sells*—his dollar or unit volume.

*Where he sells*—the markets that produce the bulk of his volume.

*Whom he sells*—what types of outlets, how many customers.

*How much he costs*—compensation, expenses, time and cost of supervision, advertising and promotion costs in his territory, costs of servicing customers.

The following yardsticks will help you determine which men contribute most to net profit:

1. Sales Volume per Customer, can be applied to any type of sales operation, with the exception of one in which a single item is sold on a one-time basis. Interpretation: The higher, the better.

2. Gross Profit per Sales Dollar, applies to any sales operation in which there is appreciable difference in gross margins, by product line, and the salesmen either carry the full line, or more than one group of items. Interpretation: The higher, the better.

3. Sales Volume as a Percentage of Territory Potential, applies in the case of operations in which each salesman's territory is clearly defined geographically. If you have more than one salesman working in an area, appraise their performance as a group. Interpretation: The higher, the better.

4. Selling Costs per Sales Dollar, applies in all cases, except sales operations in which the salesmen pay their own expenses and are compensated on a straight commission basis. Even then a check on indirect selling costs per sales dollar can be helpful. Interpretation: The lower, the better.

5. Sales Volume per Call, applies principally in the case of salesmen who call on retailers. Interpretation: The higher, the better.

6. Sales Volume per Order, applies to any sales operation, except those in which the sale is a single-item, one-time shot. Interpretation: The higher, the better.

7. Gross Profit per Customer, applies in all cases where sales volume per customer can be used, with the additional restriction that it is most useful in cases



in which gross margins differ product-wise. Interpretation: The higher, the better.

8. Number of Customers per Territory Potential Unit, applies where sales volume as a percentage of territory potential can be used. Warning: Be sure to compare with total number of outlets in the area examined. Interpretation: In general, a low figure indicates inadequate coverage. A high figure may be indicative of wasted effort. Compare with Nos. 3 and 16, particularly.

9. Selling Costs per Customer, applies wherever No. 4 can be used. Too high a figure is bad; too low a figure may indicate wasted effort on the part of the salesman. Compare with Nos. 1 and 4.

10. Number of Calls per Customer, applies except in the case of the one-time shot. For maximum value, break this yardstick down two ways: calls per key customer and calls per other customer. Depending on the type of outlet, the calls per key customer figure should run 3 to 5 times as high as the calls per other customer. Interpretation: Too low a figure usually indicates scattering; too high a figure can mean high-spotting.

11. Number of Orders per Customer, applies to all except the one-time shot operation. It measures repeat business. Interpretation: The higher, the better, but check against No. 6.

12. Gross Profit as Percentage of Territory Potential, applies primarily when differences between product gross margins are substantial. Interpretation: The higher, the better.

13. Selling Costs as Percentage of Gross Profit, if your product gross margins differ appreciably, use this instead of (or as a check on) No. 4. Interpretation: The lower, the better.

14. Gross Profit per Call, applies except to the one-time shot. Compare with No. 19. Interpretation: The higher, the better.

15. Gross Profit per Order, applies again, except to the one-time shot. When

product gross margins differ, use this figure to check No. 6. Interpretation: The higher, the better.

16. Selling Costs per Territory Potential Unit, applies, at least in part, to any operation. Shows the investment in potential business. Interpretation: The way-off-the-average figures are the ones to look for. Too low may indicate missed opportunities; too high a figure can mean a profit leak. Warning: The reliability of this yardstick depends on the accuracy of your potentials.

17. Number of Calls per Territory Potential Unit, applies to almost any operation; indicates the thoroughness of prospecting and coverage. Interpretation: The out-of-line figure (on the low side) is the one to watch for. Warning: Compare only similar territories, remembering that city districts will usually run a higher figure than rural areas.

18. Number of Orders per Territory Potential Unit, applies when you use Nos. 8 or 17. Interpretation: The higher, the better; but check the result against No. 6.

19. Selling Costs per Call, applies except in the case of the commission salesman who pays his own expenses. Even then, it has some value. Interpretation: In general, the lower, the better. Too low a figure can be a danger signal, for it may indicate indiscriminate doorbell ringing. Check against No. 5.

20. Selling Costs per Order, applies to all except a very few operations. Interpretation: What you're after here is a midway figure. High per-order selling costs can be dangerous. Low per-order costs may indicate a flock of two-bit business. Compare this yardstick with No. 6.

21. Number of Orders per Call, applies particularly when you're trying to broaden the base of your distribution. Interpretation: The higher, the better; but check against Nos. 6 and 20.

Because figures such as these yardsticks can be misleading unless you examine them in the light of background in the industry, knowledge of the style of sales operation and the personalities of the



salesmen involved, you'll want to bear these points in mind in setting up your own measures of salesmen-effectiveness:

(1) Don't gloss over the job of defining what you want your salesmen to do, in your eagerness to see how they've done! If your salesmen haven't been told, in specific terms, what their job is, you won't want to bear down on them for not having done it.

(2) At the outset, lean over backward to keep your yardsticks few in number.

(3) Accentuate the positive! Use your yardsticks to spot plus performance; find out the why and the how of your above-average men; apply those findings to the rest of the gang—and watch your total performance climb!

—BY LOUIS T. MONTANT, JR. *Printers' Ink*, July 22, 1949, p. 24:3.

### Since 1940 . . .

IN the past decade:

13½ million old customers have died.

Over 17 million marriages have taken place.

Over 30 million babies have been born.

Over one-third of all present families in the U. S. have been formed.

Out of the 140 odd million people in the U. S. today:

Sixty-three per cent do not remember World War I.

Fifty-two per cent do not remember a Republican administration in the White House.

Forty-eight per cent do not remember what conditions were like before World War II.

Forty-four per cent are consciously experiencing for the first time a free market in which they can buy what they want from normal assortments.

Obviously, that "new" buying public is a pretty big chunk of the total market, and it's getting more important every day.

*Comment: Does your company have special plans for this new buying public?*

—RALPH BRUBAKER, as quoted in *National Sales Executives Digest*

### Pep Up Sales Meetings

A MAJOR problem in planning sales clinics is finding ways to get the salesmen to participate. It is important because an effective clinic is one in which the salesmen do at least some of the talking. At a recent Lewyt distribution clinic, a roulette wheel was used to get salesman participation. A question was posed, the wheel spun, and the salesman holding the number indicated by the wheel was asked to answer the question.

—Grey Matter (Grey Advertising Agency, Inc.) 10/49

### AMA MARKETING CONFERENCE

*A conference of marketing executives will be held by the American Management Association on Thursday and Friday, March 16 and 17, 1950, at the Hotel Statler, New York City.*

# PACKAGING

## How to Package for Improved Salability

**T**ODAY, many managements' eyes, casting about for a bigger dollar's worth, are lighting on packaging as a money-saver and sales-getter.

Getting the most out of packages, however, involves more than pumping vast sums of money into chic designs. Analyzing present packaging—with definite goals in mind—is the first step in any practical program. In some cases this means spending more to achieve a desired effect. In others, redesign is for no other reason than to save money. Basically, packages should do three things:

1. Reach out for a stranglehold on consumers at point of sale—which is today's top objective in packaging.
2. Give the product complete protection in transit.
3. Cut the costs of getting the product to market.

Redesign for more sales appeal tops the list of present-day packaging emphasis. As competition increases, customers now look for plus values in the package itself as an extra impetus to buy.

Such things as improved closure and re-use value can swing a sale. Too, department, variety, chain, and small local stores are demanding more packaging by manufacturers.

Unpackaged, bulk merchandise is too easily damaged and pilfered, takes more time at point of sale, makes order-filling difficult, brings inventory losses. Stores do not have the space, and don't want the expense of maintaining their own packaging stocks. Mill-supply houses, wholesale hardware, and automotive-parts dealers feel the same way.

In designing for display value and impulse buying, manufacturers can learn a lot from retailers. Hildreth Lange, of the package and product-design department

at R. H. Macy, New York, lets go with this blast at the general run of consumer packages: "The bulk of any assortment of packaging, regardless of type, dissolves into a monotone of color and a sameness of design."

According to Miss Lange, a good package, from the merchandisers' viewpoint, should have: (1) Eye-appeal in design, motif, color; (2) originality; (3) good composition that includes all sides of the package; (4) typography that can be read by the average not-so-good eyesight at some distance; (5) proper engineering that shows up the medium to best advantages; (6) salesmanship that gives a quick impression of the product; (7) closures that are accurate and easy to open; (8) visible price.

The last point is becoming increasingly important, as more and more stores prefer to mark prices boldly on every package. Not only do retailers want room on the package to mark prices, they want room for multiple-unit prices. A recent survey showed sales up 104 per cent when identical items were offered at prices of "two or three for—."

Dealers, and distributors too, must be courted in designing packages for more salability. This is particularly important to industrial supply and equipment manufacturers, whose dealers are screaming about small-order losses.

The distributor also wants packages that can be broken up into the most popular denominations for reshipment to dealers and stores—with minimum or no repackaging.

Dealers want packages that, wherever possible, make self-contained displays.

General rule for the manufacturer to follow is: Make sure the world-shaking design you plan is practical to produce.

Can it be handled on present packaging equipment, with only minor changes? Will an investment in new packaging equipment cut the cost of the operation, save time or labor?

And is the material the cheapest that can do the job?

Checking these points before redesigning a package is important—there's no use familiarizing the sales force and the consumer with a new package that will have to be discontinued for any reason. Many companies contemplating package design changes go in for as extensive acceptance-testing as they do for a new product.

A less glamorous but more practical phase of packaging is in packing for greater protection.

Design for good protective packaging begins with analysis of the handling the product gets, both inside and outside the plant, right down to the consumer.

Before deciding that your packing job is the last word in protection, check these points:

1. Are there specifications for each item of packaging material?
2. Are there facilities, in the plant or at a commercial laboratory, for checking supplier conformity to specifications?
3. Does the packing conform to carrier regulations, like Rule 41 of the railroads?
4. Is the package adequate to meet the type of handling it will get, such as conveyors, pallets, fork trucks, at plant and distributor warehouses, and is it adaptable to new handling developments?
5. Are your salesmen, distributors, and dealers thoroughly briefed on how to handle the package and advised of new equipment which will accommodate the packaging best?

6. Is the package size adaptable to high stacking and display bins and shelves?

7. Is it properly marked, if fragile or requires special handling?

Things to guard against:

1. Is package too full, so it bulges and may break?

2. Is it underpacked, so there is waste space, and the possibility of collapsing under hard handling?

3. Is it odd-shaped, so that it is hard to stack and takes up a disproportionate amount of space?

Hand in hand with greater protection goes economy in packaging. Under the impetus of falling prices and sharper competition, distribution costs in general and packaging in particular are undergoing some thorough scrutiny.

Forcing the issue are freight rates, still on the way up. Packages that give as much protection but take up less space or weight are being sought as avidly as a movie star's autograph.

The whole trend is to lighter-weight materials—witness the growing trend to solid fiber and corrugated cases even for export shipments. Container sizes—to fill freight cars completely without wasting space—are being re-examined.

Not solely a matter of cheaper materials, package economies can come from the type of packing equipment used. Champion Spark Plug, for instance, has gone from a cheaper to a more expensive wrap because the latter, in addition to being more attractive, can be wrapped automatically rather than by hand.

—*Modern Industry*, July 15, 1949, p. 45:5.

## Rate Your Package

IT is almost always difficult for an executive to look at his package objectively—the way the consumer sees it. Yet this viewpoint is needed to discover areas for improvement. In today's marketing setup, display is becoming increasingly important; self-service and impulse sales

are growing; preferred shelf and counter space are at a premium. As a result, your package, more than ever, is among your best salesmen.

A package rating chart, devised to provide an objective vantage-point from which your package may be evaluated,

## PACKAGE RATING CHART

	Good	Average	Poor	Your Package
<b>1. MASS DISPLAY</b>				
Is brand identity strong? Can your package be quickly identified in "tumbled" displays and where packages are not "faced"?	5	3	1	
Does your package stand out from its neighbors in mass display? Is it distinctive from competition even at a glance?	3	2	1	
How well does it "sell itself" by stimulating impulse purchases?	3	2	1	
Can simplification of design and copy increase display punch?	2	1	0	
Are design and color as efficient under new cold fluorescent lighting as under incandescent?	1	0	0	
<b>2. ADVERTISING VALUE</b>				
Does your package, through distinctiveness, back up your advertising investment at the point of sale?	4	3	2	
Does the package instantly convey the qualities claimed for your product in advertising?	4	3	2	
Can your package, trademark and logotype be successfully reproduced in all advertising media?	4	3	2	
<b>3. RECOGNITION AND MEMORY VALUE</b>				
Could your package be identified in a flash when seen casually by the consumer?	4	3	2	
Distinctive copy, trademark, color and layout are keys to recognition and memory value. Are design elements on your package vivid enough? Could they be emphasized?	4	3	2	
Have rigid standards been set up so that logotype, trademark, and package always appear the same in advertising and promotion to reinforce consumer recognition?	4	3	2	
<b>4. EXPRESSIVE OF CONTENTS</b>				
Does your package visually express its contents? Does it express to maximum advantage the attributes you are seeking to underscore, such as purity, tastiness, big value, strength, daintiness, exclusiveness?	4	3	2	
Is product use clearly shown at the point of sale by the use of simple, lucid copy and illustrations?	4	3	2	
Quality may be well expressed even in the lowest cost packaging mediums. Does your package say to the consumer, "This is a quality product"?	4	3	2	
<b>5. MARKET APPEAL</b>				
Have you considered who buys your product: sex, age, class, locality? Is the package designed to appeal to this market?	3	2	1	
Is it geared for the greatest merchandising effectiveness in the type of store which sells your product?	3	2	1	
Is price right in relation to sizes, competition, value?	2	1	0	
Do distributors and dealers like it?	2	1	0	
<b>6. CONSUMER USE</b>				
Is the package easy to open, dispense, use and close?	3	2	1	
Are its sizes best for consumer needs?	3	2	1	
Are directions easy to read and understand? (Most directional copy may be cut 40 per cent and still tell the story. Can yours?)	2	1	0	
Does the package look as well in its home environment as it does in point-of-sale display?	2	1	0	
<b>7. ILLUSTRATIVE DESIGN AND COPY</b>				
A package must appeal to the senses. Have you considered all five? The visual appearance may suggest taste appeal, texture, fragrance, even sound, if need be. Does your package stimulate the emotional urge to buy?	3	2	1	
Is the art work the best that can be done to express product excellence through fine lettering, pleasing layout, good color?	3	2	1	
Is the copy on your package doing the best selling job? At first sight? On close study?	2	1	0	
<b>8. CONSTRUCTION</b>				
Does your package protect the product; keep low the amount of goods returned?	2	1	0	
Would new materials or techniques reduce your packaging costs, while increasing sales appeal?	2	1	0	
Would simplification of the number of sizes and types of packages used cut costs and reduce inventory?	2	1	0	
Does your package permit your adopting new developments in filling and packing machinery to cut labor costs?	2	1	0	
<b>9. COST AND PROCUREMENT</b>				
Are you getting a quality package at a competitive price, with all factors of appearance fully considered?	3	2	1	
Have ink, color, paper, printing, dimensional and color tolerances been carefully specified to assure that competitive bidding is on exactly the same elements?	3	2	1	
Do you encourage suppliers to show you their latest packaging developments?	2	1	0	
<b>10. LEGAL</b>				
Mere reliance on trademark registration does not constitute full protection. Best safeguard is constant use to preserve identity at common law. Are you carefully protecting yours?	2	1	0	
Is your trademark sufficiently distinctive in design and color from all others to guard against infringement?	2	1	0	
Is required legal copy, such as pure food and drug statement, handled in a manner that meets requirements without detracting from package appearance?	2	1	0	
				GRAND TOTAL

(Average = 80 per cent)

was issued recently by Lippincott & Margulies, Inc.\* This chart, which is reproduced here, will be found most valuable when you compare your package with its competition at point of sale. No rating chart, of course, is equally applicable to all packages. Questions raised here particularly govern packaging for over-the-counter merchandise.

\* 500 Fifth Avenue, New York 18, N. Y.

After you have rated each factor, total the score of your package to see if it beats the average of 80 per cent, or is among the leaders at 90 per cent or better.

With improvement, it is not unusual for low-score packages to realize a 10 per cent increase in sales—this, without any extra advertising or promotional investment. Such an increase often means a growth in profits of from 20 to 25 per cent.

#### **AMA NATIONAL PACKAGING CONFERENCE AND EXPOSITION**

*The American Management Association's 19th National Exposition and Concurrent Conference on Packaging, Packing, and Shipping will be held April 24-5-6-7, at the Navy Pier, Chicago.*

## **FINANCIAL MANAGEMENT**

### **Efficient Planning for Budgeting**

**B**UDGETING is planning. Behind every item in a budget, except taxes and other external factors, there is a responsible individual and his purposes. To speak of the "behavior of accounts," as many do, is to look at the shadow and overlook the substance. The figures merely mirror men—their motives and their responsibilities. Hence each figure should tie in directly with the individually assigned responsibilities of the executives in the organization, all the way from the president or managing director to the zone sales managers and department supervisors. Fundamentally, then, what budgeting amounts to is this: planning, in terms of money, the activities of each human being in the particular enterprise or institution for which the budget is prepared.

Efficient planning of budgets requires a coordinator—a man to whom is assigned the responsibility for fitting together into a completed budget all the proposals of the company's executives. The coordinator will confer with each executive in turn. Aside from sessions with the president or managing director alone, every budget conference should be attended by two executives: (1) the man directly responsible for the specific items under consideration, (2) his immediate superior.

Every budget must have two sides—one for estimated receipts, the other for allowed expenditures. Receipts must at least equal and should exceed expenditures. Though it is seldom possible to predetermine exactly the amounts to be received in a business enterprise, the re-

sults are sometimes surprisingly accurate. The Bausch & Lomb Optical Company of Rochester, N. Y., sells a range of products that covers more than 40,000 varieties. Edward S. LaRose, its controller, has for many years forecast the company's receipts from sales with a deviation seldom larger than 5 per cent. Here's how he summarizes the essentials for budgeting sales: \*

1. Study your normal business growth, using average monthly and secular trends.
2. Forecast general economic conditions a year in advance.
3. Find the deviation between your business and general business conditions.
4. Temper your growth, if necessary, with general business conditions.
5. Use a profitgraph to determine whether proposed or adjusted volume will create earnings desired.
6. Know your potential market by product, by district, by trading area.
7. Eliminate waste in distribution by concentration on profitable areas and products.
8. Beat depression by new products, advertising and increasing your goals in areas where potential is under-absorbed.
9. Know your seasonal trend of sales by products.
10. Develop a sales budget in both units and dollars by: class of product, month, district, trading area, branch, salesman, customer.

Efficiency in budgeting sales income can be attained only by planning for the future in the light of past experience, but all past experience must be projected into the future with circumspection, and with imagination based on our present best judgment of future developments. Otherwise we shall plan to travel in a circle when we ought to be heading off into new and different paths.

Like processionary caterpillars, we may travel in a circle until we perish. Jean Henri Fabre, the great French naturalist, once set a procession of caterpillars crawling around the edge of a flowerpot, where they continued endlessly 'round and 'round until they fell off from starvation. The point cannot be stressed too strongly that mere blind following of past experi-

ence has been the beginning of the end for many an enterprise.

In an established business, the best basic source of data is the careful codification of salesmen's experience and opinion.

Lacking basic data from salesmen or other first-hand information on potential markets, recourse must be had to market surveys or even as a last resort to educated guesses by sales managers.

In arriving at estimated sales income, allowances must be made for the customary deductions from gross sales to arrive at net sales, namely: trade discounts; cash discounts; freight and other delivery allowances; customer returns; salesmen's and brokers' commissions.

On the opposite side of the industrial budget, allowances for expenditures should be kept enough below budgeted receipts to leave a margin of safety in normal times over and above the profit that is requisite to maintain the company's financial strength. Building up financial reserves during periods of good business is necessary for there are bound to be setbacks when such reserves will be life savers for the enterprise.

In budgeting out-go, previously determined or non-controllable costs must first be deducted from anticipated income to discover how much income will be left for other purposes. Expenditures will then logically fall into four classes, each of which should be dealt with in turn:

a. *Periodic expenditures—Predetermined.* These include but are not limited to:

- (1) Interest on indebtedness; (2) property and franchise taxes; (3) sinking funds and other types of debt amortization; (4) heat, light, other service expenses; (5) cost of maintaining physical plant of the company in repair.

b. *Production costs—Predetermined.* The second step in planning budgeted expenditures is to approximate as closely as possible the uncontrollable out-of-pocket costs of producing the goods or services that the enterprise must have in order to meet its budgeted sales. If these estimates prove wrong subsequently, the budget must be correspondingly revised,

\* See also: La Rose, E. S., *Budgeting Sales and Selling Costs* (Financial Management Series No. 63), 1940, American Management Association.



or the divergence in prices must be incorporated in a supplementary budget to be superimposed directly as an addition to the cost of sales of the products affected. At the time of preparation of the original budget, however, the out-of-pocket unit costs are projected in the light of the then known facts.

c. *Production costs—Controllable.* In contrast with non-controllable out-of-pocket unit costs, many other production costs fall strictly within the scope of current control through budget allowances. Poor workmanship or inadequate supervision, for example, will produce defective products that will have to be reworked, repaired or scrapped. Machine breakdowns, employee absences, extremes of weather, and casualties will also entail payments for lost time. While none of these happenings can be specifically foreseen, they are bound to occur, and provision for their irreducible minimum must be included in the budget.

Unit production costs are therefore computed by adding together these elements:

1. Material costs: Quantity as specified, with additional allowances for waste and defects, multiplied by anticipated price;
2. Production labor costs: Minutes or hours of workmen as prescribed, with allowances for absorbing lost time, re-work, and other inefficiencies multiplied by the prevailing wage rate plus an upcharge to cover overtime, shift, and vacation bonuses, social security taxes, welfare contributions, and premiums for compensation and other liability insurance that are based on the pay of the workmen;
3. Other out-of-pocket unit costs: Power, fuel, water, steam, and air consumption; cutting tools; lubricants, etc.

Total production costs are obtained by multiplying the unit costs of each product by the budgeted output of such products.

d. *Periodic expenditures—Controllable.* Once production costs have been established, the next step is to arrive at allowances for the periodic costs of factory operations. These include supervision, service, certain supplies and maintenance, as appropriate for the budgeted volume of production. In determining such allowances for supervision and service, the rule

should be, unless betterment of quality is at stake, never to spend a dollar for either that will not save more than a dollar of direct labor or material costs.

Projected costs for supplies and other incidental expenses ordinarily should be based on their past relation to direct labor hours or productive machine hours, adjusted for price changes but modified to fit the needs of current changes in requirements, anticipated price fluctuations, and the limitations of current income.

Upkeep of machines and equipment can be budgeted with fair accuracy only by a physical survey of the probable maintenance necessary for each machine and unit of equipment in use at the beginning of the budget period or to be put into use during the period.

All these items of controllable periodic costs should be budgeted to correspond to the projected production but under a scale of allowances that indicates how they will increase or decrease, as current productive activity goes up or down.

Finally, but far from least important, comes the budgeting of general selling and administrative and collateral expenses. This must be performed in the rarefied atmosphere of what for want of a better name is called company "policy." Principal items of controllable periodic costs within this class are:

Salaries and expenses of major executives and their staffs; executive incentives and other bonuses; professional services; advertising; research and development; contributions.

Final approval will scarcely have been affixed to the completed budget before unanticipated developments will require its modification. For this reason the coordinator of the budget will have a continuous job. Flexible allowances to synchronize with fluctuating activity will be built into the original budget, so far as possible, to provide elasticity without loss of control. Variances between budgeted and actual sales and expenditures will be brought out in the accounting returns for each period, raising a question as to why the responsible executives have not been

able to accomplish planned results. When such variances are found to be due to unavoidable conditions, the budget must be revised to incorporate their effect. If the revisions are drastic and far-reaching, they may require a reissue of the budget. For the most part, however, they may be conveniently and effectively dealt with by means of a simple form on which may be

indicated any requests for an extra budget allowance, together with a statement by the department requesting the allowance as to why the expenses involved should not be charged against its original allowance.

—BY CHARLES C. JAMES. *Advanced Management*, September, 1949, p. 107:7.

## Small Business Can Pay Pensions

ONE of the biggest headaches for the small business man today is "What can be done about pensions for employees?" It is no longer solely a matter of social-consciousness. With retirement plans popping up all over in the big companies, the little company can feel the pressure already, or see it coming. Without an answer, it's becoming increasingly difficult to get and hold good workers.

But what can the small business man do when he has a number of long-time employees and no great cash reserves to take care of their past service? When, even if he could afford to undertake a retirement program right now, he can't blithely commit himself to high cost in the future?

Happily enough, the problem is far from hopeless. A number of small firms have found solutions. They're using several methods and even combinations of methods that are proving practical and effective. And among them is one that's called the deferred profit-sharing plan.

For example, a small New York towing company has among its employees a few with three or four years' service, several with 15 years and more, some quite young, others well along in years. Under the plan, the company each year puts 10 per cent of net profits into a trust fund. No profits, no contributions to the fund.

A bank serves as trustee, accepting and investing the money and holding it in trust. There's an administrative committee of three employees and two company officials. At retirement or after age 65, the money accumulated for each employee

can be disbursed to him over a period of years. Or the committee can use the cash to buy a single premium, paid-up annuity for him.

Each employee's share of the total annual contribution to the fund is fixed by a simple formula. He gets a unit of credit for every \$100 of his salary, plus another unit for each year of service.

The plan can qualify under the Internal Revenue Code for tax advantages. The employer can deduct from his taxable income any contribution to the fund that doesn't exceed 15 per cent of the total compensation paid to employee participants during the year. And if, in one year, he cannot contribute up to 15 per cent, he can carry forward the difference to increase his permissible deduction in subsequent years.

Certainly the plan is no panacea. Usually it doesn't provide as much income as would be ideal for employees who have only a short time to go before retirement. Yet some provision is better than none at all. And there are various ways, in addition to the one already mentioned, for giving recognition to length of service.

Another formula, for instance, is to add 5 per cent of the compensation for each completed full year of service in excess of one year. That way, a 21-year employee gets twice as much retirement income per dollar of compensation as a one-year man in the same salary bracket.

However, if such a provision is used, it must be approved by the Treasury Department for tax deduction purposes each year. For this reason, many employers

make the allocation strictly according to compensation, which does reflect to some degree the element of long service.

A second method also increasingly popular with small companies is a funded pension plan on a money-purchase basis. It works like this: The employer decides to put into a trust fund a definite percentage of his payroll instead of part of his profits. Usually the figure is between 5 and 10 per cent. Each employee is credited with his proper share and, at retirement, money accumulated for him can be distributed in instalments or can be used to purchase a paid-up annuity for him.

The employer can credit past service at the same rate as future service or at a slightly lower rate. But the crediting is done "from now on," with no need for a bulk cash outlay at the start of the plan. For example, an employee of 50, with many years' service, makes \$3,000 a year, is due to retire in 15 years. His total past earnings have been \$75,000 and, in this particular plan, both past and future services are credited at 10 per cent.

For the first year, then, the employer deposits \$300 for this man's current year's service (10 per cent of \$3,000). He has 15 years in which to amortize the \$7,500 (10 per cent of \$75,000) for past service. That requires \$500 a year. So the total fund contribution this year for this employee is \$800.

The plan puts a fixed burden on the employer. Yet many employers find it practical because it is simple to set up and to operate. No actuarial calculations are required. The employer knows exactly what his costs are going to be. As older employees retire and new ones take their place, costs come down since only current service contributions have to be made for new workers.

The money-purchase plan can be used in combination with deferred profit-sharing, and many small firms are installing the combination, making their fixed cost—percentage of payroll—under the money-purchase phase small.

Under the Internal Revenue Code, the employer who combines the plans can de-

duct from his taxable income in any one year any contribution to the fund which doesn't exceed in amount 25 per cent of the regular compensation paid to plan members. If he puts in an excess amount, he can deduct it in succeeding taxable years so long as the carried-forward amount plus the amount actually paid in such a subsequent year doesn't exceed 30 per cent of employees' compensation.

Still another method, with a different basic concept, is open to the small company. This is a true retirement plan that provides a definite retirement life income benefit. Such a benefit can be obtained through an individual retirement income contract available from many life insurance companies.

The different concept is this: Under the profit-sharing or money-purchase plan, the amounts set aside determine what benefits employees are to receive. But under the definite-benefit type of formula, the reverse is true.

Here, the employer decides on what rate of benefit he wants to pay his employees on retirement in relation to their individual compensations. He may, for instance, determine that retirement income should be an amount equal to 1 per cent of the individual's current or final salary, times the number of years' service. Then he appropriates an actuarially fixed amount of money to purchase that benefit.

The individual annuity contract bought by each eligible employee is held by the trust. The contract usually contains a life insurance element as well, most life insurance companies issuing such contracts without life insurance only for employees who cannot pass a physical examination.

If you're interested in setting up a retirement or other benefit plan for your employees, how can you proceed?

1. The first requisite—and a vital one—is the realization that no one plan is automatically best for you. The most effective plan can be arrived at only after thorough study. It must be based on the requirements of the individual employer-employee group. It must take into consideration such factors as past earnings records and future outlook, number of

employees and their ages and salaries. Alternatives must be investigated and even combinations considered.

2. Get expert help.

3. Work up, or have worked up for you, a plan designed to fit your situation. If you decide on a fixed-commitment type of plan, remember that it's advisable, even at the sacrifice of some values, to keep the outlay at a rate in relation to payroll that you can reasonably expect to carry

in good times and bad. For, if a pension plan is discontinued within a 10-year period from inception, tax liabilities may be retroactively incurred unless the employer can prove that discontinuance is caused by "business necessity." And so far the Bureau of Internal Revenue has not stated just what constitutes business necessity beyond insolvency or bankruptcy.

—BY LAWRENCE GALTON. *Nation's Business*, September, 1949, p. 29:7.

## Buy Stocks if . . .

**G**OT any money? No? Well, maybe just a few thousand dollars tucked away that you don't need for several years? If so, it will do you no harm, and it may do you good, to think about buying some good stocks. Even on a small scale you can do it, and there's a fair chance that you can make a little money.

Yes, there's risk in it, but you don't need to hiss when you say the word "risk." Risk is one of the basic facts of life, and you can't escape it in anything you do. But at least you can accept it and take it in your stride.

Stocks have a hangover of a bad reputation. People remember the time, before the Great Crash of '29, when excessive whoopee made poor stocks seem like good stocks. This is still possible, for stocks and dealers in stocks wear no halos. But, after all, the business has been cleaned up fairly well, and now it is sober, a bit humbler, and reasonably responsible. Twenty years have made a great difference.

To buy stocks is not exactly in style these days. The style is more on the side of government bonds, or other bonds, or savings. These are secure. They involve no risk. They are like the freezer that keeps the contents safe, but that's all.

Why are people leery of stocks? The two great deterrents to buying stocks are: first, lack of knowledge; second, fear. Thousands of families have been interviewed on the subject by the Federal Re-

serve Board. It was put to them this way: "Suppose a man decides not to spend all his money. He can either put it in a bank or he can invest it. What do you think would be the wisest thing for him to do with the money nowadays—put it in the bank, buy savings bonds with it, invest it in real estate, or buy common stock with it? Why do you make that choice?"

The score:

For:

Savings bonds . . . . .	60%	"Safe, not a gamble."
Bank deposits . . . . .	32%	"Safe, not a gamble."
Real estate . . . . .	9%	
Common stock . . . . .	5%	

Against:

Common stock . . . . .	62%	"Not familiar with, not safe."
Real estate . . . . .	58%	"Price too high."
Bank deposits . . . . .	23%	"Interest rate too low."
Savings bonds . . . . .	9%	

Not everyone polled expressed an opinion on each class of security.

Even among men and women with incomes of \$7,500 or better, two-thirds said they wanted their investments to have a fixed value. Stocks, of course, have a fluctuating value.

Some brokerage houses, noting that a great many people are unfamiliar with stocks, have begun campaigns to explain the subject to the public. Most spectacular example is that of a chain brokerage firm, Merrill Lynch, Pierce, Fenner & Beane (commonly known as MLPF&B), which started a series of educational advertisements about investments. The firm first ran a full-page newspaper ad, "What everybody ought to know about this stock

and bond business." The ad undertook to answer such questions as: What are common stocks worth? How do you do business with a broker?

Free material on how to invest was offered to readers. The first week brought 4,000 requests.

Said the advertising manager of the firm, Louis Engel:

The results show that most people don't invest in stocks because the subject is completely unfamiliar to them. Plenty of business executives and men of affairs are uninformed too. They don't like to admit it so they don't buy.

Next to ignorance, fear is the greatest deterrent to investing in stocks. Although most of the old evils of manipulation have been abolished by the Securities and Exchange Commission, many people still think that buying stocks is like playing horses.

People want security. People are saving about 8 per cent of their income, compared with 4 per cent prewar. But almost every cent of these savings is going into something "safe." Here is where people have put their savings during the past eight years:

Currency and banks.....	\$82 billion
Savings and loan associations.....	\$ 7 billion
Insurance and pensions.....	\$54 billion
U. S. government bonds.....	\$59 billion
Corporate securities.....	Less than \$ 2 billion

Why buy stocks? There are two reasons: One, if you buy wisely you can probably make more money in common stocks than you can in something "safe." Two, the country needs your surplus money for risk capital.

What are the chances of making money in the market? Nobody ever knows for sure. The market can go up or down. But the probabilities, based on experience, are that good money can be made over a period of years from carefully selected investments.

That doesn't mean doubling your money in six months. It means getting an average return on investment of, say 6 to 10 per cent.

Contrast stocks and savings. What would have happened if on the first of every month for the past 20 years you had invested \$50 in a group of average com-

mon stocks? Compare this with what would have happened if you had put the money into U. S. Series E savings bonds, or the equivalent, paying 2.9 per cent interest compounded semi-annually.

For a list of average stocks, take the 30 used to compute the widely known Dow-Jones Industrial Average. A 20-year investment in savings bonds at \$50 a month would now be worth \$13,328, and you would have received \$2,000 in interest. But the same investment in the Dow-Jones Industrials would be worth \$15,933, and you would have received \$8,317 in dividends, a total of \$24,250.

Unwise investment, of course, could easily have lost you part of your capital. Not everybody invests wisely. The market is always a risk.

Business today needs risk capital. Traditionally, firms have been able to sell ownership in the form of stock to people willing to take a risk for the possibility of gain. But today the public turns up its nose at good dividends from big companies, and smaller or newer firms don't have much chance to get risk capital.

Could you be a wise investor? Investing requires care. You might brush up on how to read a financial report and the meaning of phrases like "price to earnings ratio" and "book value." Maybe pay a little more attention to financial news. You probably spend over 40 hours a week at your job so you won't have too much time to study. But read a book or two.

Then get advice. You will want to make your own decisions, but first get the viewpoint of an expert. Talk to your banker. If you live in a large town, there will be a broker whose judgment may be pretty good.

Buy for the long pull—that's the fashionable advice today. One able investment counselor, Lew G. Coit of Washington, D. C., points out that even the "experts" can't spot the peaks and valleys in stock prices until they have gone by. He believes the smaller investor is better off investing his money as he acquires it in the stocks of well-managed, growing companies, rather than trying to buy and sell frequently as a trader does.



But buying for the long pull doesn't mean you don't have to keep alert. "No stock can be put away and forgotten," says Harris J. Nelson, author of *Commonsense Speculation*. "Every single issue ought to be regarded by its owner as a hot potato to be dropped sometime."

Don't put all your eggs in one basket. Spread it among different firms and different industries. One way to get diversification is to buy stock in an investment trust. The investment trust takes your money and invests it, along with the

funds of other investors, in stock of from 30 to 150 companies. You get the profits, minus expenses for operation of the trust. There are over a hundred investment trusts, some specializing in safer investments, some in speculative stocks.

Industry can increase our standard of living only so long as it gets new tools and better equipment. The investor provides these tools and equipment in return for a profit. It's a profit that no one should hesitate to take—if he can get it.

—*Changing Times: The Kiplinger Magazine*, May, 1949, p. 25:4.

### Rate Your Annual Report

**FORBES MAGAZINE** is currently scoring annual reports which come to its attention so as to form a basis of comparison among the reports of various companies. Out of a total of 210 points, which is considered perfect, 45 points are awarded for presentation, 95 for financial data, and 70 for general information. It will be seen, therefore, that the financial data is regarded as not quite so important as all the other factors combined. The following table, which presents the factors used by *Forbes'* editors, suggests their opinion of the relative weight which should be given the several factors in an annual report:

(210 points equal 100 per cent)

	POINTS
I. PRESENTATION .....	45
1. Cover (stock, typography, color) .....	5
2. Typography and layout (easy-to-read type, varied use of pictures) .....	15
3. Text (clarity, non-technical, easy to grasp) .....	15
4. Approach and appeal (sincere, candid, informal, personal) .....	10
II. FINANCIAL DATA .....	95
1. Report to stockholders (content and handling) .....	25
2. How money came in and went out (method of description) .....	25
3. Simplified financial analysis .....	20
4. Comparisons with previous years (financial, sales, etc.) .....	15
5. Data on future prospects .....	10
III. GENERAL INFORMATION .....	70
1. Summary or highlight page on operations and results .....	10
2. Information about company .....	5
3. Statement of management (credo or viewpoint) .....	5
4. Competitive position .....	5
5. Research activities .....	5
6. Sales data .....	5
7. Product information .....	5
8. Employee relations .....	5
9. Operating data (manufacturing, supplies, inventory, etc.) .....	10
10. Outside factors affecting company .....	15



## Company Pension Practices: A Survey

THE question of retirement for manufacturing employees is pistol-hot today. Company executives throughout the country are examining and reexamining the position of their firms, and trying to judge just what impact the policies finally adopted by the basic industries will have on their operations.

The Bankers Trust recently prepared charts (published in *The New York Times*) covering 5,000,000 of the nation's 51,441,000 non-agricultural workers who share in private pension plans. Here is what they show broken down percentage-wise: Management pays all cost, 55.5 per cent; employees share cost, 39.4 per cent; employee may supplement management contributions, 2 per cent; employee pays on earnings over \$3,000, 3 per cent.

Of course the policies of the larger firms dominate this picture. For many of the thousands of small industrial plants in the United States, pensions for employees are financially out of the question. And, trend or not, there is this to remember. No union, regardless of its strength, can compel an employer to adopt a pension plan unless he is economically able to meet the mounting liability and remain in a competitive position. It would simply mean bankruptcy. During the decade of the fifties, however, if current events are any indication, the pension problem will be up for management solution.

Management should study the question, whether or not it expects to answer it in the immediate future. For one thing, if a company realizes that in its present circumstances it cannot undertake the expense of such a program, and also believes that pensions will be an issue next time there are contract talks, this might be forestalled by an intelligent program explaining to its employees why such a commitment is impossible for the time being at least.

In the final analysis, each company's

approach to the pension problem will be governed by its own human relations philosophy and the various pressures—union and community—that affect it. In the belief that a look at the pension policies of other companies would be a valuable guide to practice for those employers now studying the pension question, The Associated Industries of Cleveland recently surveyed 39 representative companies in the Cleveland area employing more than 32,000 persons.

The pension plan covered both shop and office personnel in 35 companies; office personnel only in four. Plans covered a minimum of six employees to a maximum of 6,534; in all 39 firms, a total of 27,249 employees were covered.

Answers to the question, "What is the average age of all employees included in plan?", were as follows:

27½ years to 45 years.....	22 companies
(Remainder did not report)	
Weighted average of ages of employees of reporting firms (22 companies employing 21,502 persons) .....	36.5 years

Some of the other significant questions asked in the survey, and the replies received, are presented below.

*Are benefits based on total earnings or only on earnings in excess of \$3,000, the Federal social security limit?*

Total earnings, 30 companies; one company did not report. The other eight firms gave the following replies: earnings in excess of \$3,000; average monthly earnings during last year of employment; salary at retirement; years of service only; matches Federal social security; base rate at time of retirement; judgment of management; total earnings up to \$2,100.

*Is the plan contributory or wholly financed by the company?*

Contributory, eight companies; wholly financed by company, 31.

*If contributory, what percentage of total premiums does employee pay?*

Four of the eight firms having con-

tributory plans answered, respectively: 20 per cent; 25; 30; 40. One firm did not reply. The other three companies all said 33-1/3 per cent.

*What percentage of employee's pay is his contribution?*

Three of the eight firms having contributory plans did not report. The other firms answered as follows: 20% on first \$250 per month—3% on remainder (1 company); 2% to 5% (1); 3% (1); 3% plus (1); \$4.50 to \$7.74 per month according to salary (1).

*If contributory, what percentage of eligible employees participate?*

75% (1 company); 80% (1); 91% (1); 93% (1); 95% (1); 95% plus (1); 99 1/2% (1); 100% (1).

*Do those who retire receive a flat rate, or does the amount depend upon seniority and/or earnings?*

Flat rate .....	1 company
Flat rate and service years.....	1 company
Earnings .....	4 companies
Earnings and service years.....	31 companies
Matches Federal old age pension .....	1 company
Judgment of management.....	1 company

*Is it a self-insured plan, a trustee plan using insurance policies, or a group annuity plan?*

Self-insured .....	7 companies
Self-insured, trustee-operated .....	6 companies
Trustee plan .....	19 companies
Group annuity .....	7 companies

*What is cost in cents per hour to company? To employee?*

In the case of contributory plans: company 5.2¢—employee 3.4¢, 1 company; company 5.5¢—employee 2.25¢, 1 company; company 6.5¢—employee 4.8¢, 1 company; company 9.5¢ to 10¢—employee 2.5¢, 1 company; not reporting, 4 companies.

In the case of non-contributory plans, cost to company was as follows: 6.24¢—one company; 8¢—one; 8.5¢—one; 8.96¢—two; 9¢—two; 10¢—two; 11.5¢—one; 12¢—one; 12.5¢—one; 16.5¢—one; 17¢—one; 18¢—one. Sixteen firms did not report on this question.

—*The Associated Industries of Cleveland Newsletter*, November 1, 1949, p. 1:5.

## INSURANCE

### An Economist Looks at Pensions

THERE are many factors today indicating that pension plans are economically sound and politically and socially desirable. The adoption of pension plans covering many millions of Americans would tend to strengthen the American way of life and would give a great many persons a direct interest in upholding it. If large numbers of men and women were protected by pension plans, they would have a greater stake in maintaining the purchasing power of the dollar. There would be more people interested in fight-

ing the forces of inflation which often originate from actions taken by Congress at the instigation of pressure groups. Moreover, the purchasing power of pensioners and those whose future security is safeguarded by pension rights can exert a strong force against severe depressions. These factors alone warrant a very careful consideration of the issues involved in the widespread adoption of pension plans.

The first question that arises in regard to them is whether pensions should be the problem of individual companies or

should be solely the concern of the Federal Government. There are pros and cons for each view. If all pensions were handled by the Federal Government, the plan would be uniform for all those covered. The contributions by the employer and by the employee would be alike, as is provided for under the present Social Security Act. It is argued that there would be greater mobility for the individual employee, since he would take with him the rights to his pension if he changed employment. It would also give him assurance that the pension would be paid no matter what happened to the company for which he was working.

There are also economic factors to be considered. If adequate pensions for all workers in the country were provided under a government plan, the tax revenue derived from this source would be considerable, at least in the initial stages. The use of this money by the government could exercise a substantial influence on the economy of the country. The government might use the Social Security revenue to meet current deficits, in which case there would be no great inducement to balance the budget.

On the other hand, if pension plans embracing all employees were handled by the corporations themselves or by banks and insurance companies, this might also create a number of serious problems. This would further aggravate the investment problem of institutional investors including those who administer pension funds.

In my opinion, those who argue for a single government pension have lost sight of the basic purpose of a pension. An adequate pension is not an inalienable right created by a minimum amount of work for a minimum period of time for a great many different employers. Rather a pension should be earned by faithful and continuous service; it should be a reward for that service over a period of time which permits the recipient to live out his unproductive years in dignity and with a measure of independence.

Thus company pensions are more desirable, I believe, than a single government pension for the following reasons:

1. The company will receive some credit for its contributions to the plan. (Contrast this with the fact that there are relatively few employees in the country who have any appreciation of their employers' contributions to their Social Security.)

2. Company pensions can be tailor-made for the particular company and industry. In the long run, the individual should benefit more from a plan adopted and administered to fit his own needs.

3. A single government pension could become a political football with benefits determined more by political than economic considerations.

The other question that arises is whether or not employees should contribute to the cost of their pensions. Many arguments have been advanced to support both views. The contributory system has certain advantages. In the first place, the individual employee knows he is contributing to the pension fund. Hence, he is likely to appreciate the benefits more than if they were given to him without any contribution on his part. Second, there is less chance of constant demands for increases in pensions if employees contribute toward the cost of the plan. If the employees wish to increase their pensions, they will also have to increase their contributions, and many of them might not be willing to do so.

In the case of the contributory plan, however, the contribution of the employee is not deductible from his taxable income. The employee therefore has to pay taxes on income from which he receives no immediate benefit. It would be better if the tax law were changed so that payments by individuals toward their pensions were tax-deductible as they are in Canada. The tax then would be payable when the individual begins to receive his pension.

In addition, the fact should not be overlooked that pension plans are expensive, and increase production costs. In effect, they might be considered as wages except that they are deferred both as to payment and as to taxability to the employee.

Social Security was intended to provide only minimum benefits. If the employees desire more than the basic necessities of life upon retirement, they should be willing to contribute toward the increased benefits. Their contributions do not represent a reduction in pay, but savings which will return to them whether they

retire, die or leave the employer's service before retirement.

—BY MARCUS NADLER. Reprinted from *Central Hanover Pension Bulletin*, November, 1949, published for Central Hanover Bank and Trust Company, New York, and copyrighted 1949, by Prentice-Hall, Inc.

### **Don't Let the Human Element Fail . . .**

THE human element can be the weak component in any company's otherwise strong fire protection system. A sound fire protection program guards against human failures through the use of tested procedures for supervision and training.

Here are 20 questions based on procedures followed by well-managed plants to keep their people on the ball where fire protection is concerned. To how many can you answer "Yes"?

1. Sprinkler valves sealed open?
2. Red Tags used whenever sprinkler valves are closed?
3. Insurance company notified before sprinklers are shut off?
4. Weekly inspection, with records, made of all valves?
5. Someone always on hand who knows where the valves are and how to operate them?
6. Watchmen physically capable, mentally alert?
7. Do they know how to sound the alarm?
8. Have you given them names of officials, with phone numbers, to notify in emergency?
9. Are they trained in the use of extinguishers?
10. Do they know the location of all sprinkler valves and areas they control?
11. Do they thoroughly understand the operation of the sprinkler system?
12. All employees instructed periodically regarding fire prevention?
13. Small group of key men in each department organized and trained to extinguish fire as soon as it breaks out?
14. Foremen take an active interest in fire prevention?
15. Operators of boilers, furnaces, ovens, and hazardous processes properly trained and well supervised?
16. Automatic safety controls inspected regularly and kept operative?
17. When a process is operated in "off" hours, are supervisors or officers on duty who can quickly shut off gas, oil, and flammable liquids in an emergency?
18. Do you notify the insurance company when new processes, speedups, or changes are planned?
19. Men on duty when the plant is shut down prepared to act effectively if fire breaks out?
20. Local fire department officers invited to become familiar with the layout and hazards of your plant?

—*Factory Mutual Record* 1/50

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● SALES OF GROUP LIFE INSURANCE and employee life insurance in the first 10 months of 1949 totaled \$2,536,000,000, or 112 per cent of the figure for the first 10 months of 1948. This does not include additional insurance on policies already in force.

—Life Insurance Agency Management Association

## Fidelity Bonds Mean Indemnity for Employee Embezzlements

**W**HEN a business executive discovers that one of his trusted officers or employees has embezzled some of the firm's money, it creates a feeling of distress and uneasiness. Sometimes the result is tragic for the employer as well as the dishonest employee. While there is nothing, except time, to replace the lost faith in human nature or the attendant distrust such a happening creates, every business executive should be familiar with the various forms of corporate fidelity bonds which are available to him. Their existence has saved many firms and corporations from financial ruin.

Bonding company records reveal that dishonest employee losses are on the increase both as to frequency and amount. They further show that many of the dishonesty losses far exceed the amount of the fidelity bond carried on the dishonest employee. This fact indicates that the business executive has not taken into consideration an increase in the employee's responsibilities, or he has underestimated the possible amount of dishonesty loss which the employee might cause, in deciding upon the amount of fidelity bond to purchase.

Before determining the amount and form of fidelity coverage to purchase, the employer should seek advice and recommendations from competent sources available. First he should call in an insurance agent or broker and give him an outline of the financial setup of his organization, particularly the cash exposure, as well as the stock or merchandise. He should explain the key positions and what authority each one carries. If the firm uses a C.P.A. he should tell that C.P.A. of his desire to purchase adequate fidelity coverage and request advice as to the amount of coverage for the various employees. He should also consult with any credit agency or bank from which his firm borrows money, to get advice regarding proper coverage for the various loss hazards which exist. After the business man has obtained the advice of C.P.A.'s, credit men, and his

own insurance agent or broker, he should be able to reach a sound decision as to the amount and coverage of fidelity bond he should purchase.

Following are the forms available:

*Individual Bonds.* At the time when corporate suretyship made its beginning, all fidelity bonds were individual in form. They were written for a specific employee in favor of a particular employer. They were written for a period of one year, and in the early days the coverage was generally limited to acts of larceny or embezzlement. Since then the individual bond has been considerably broadened in form and is still available to the business man. It is ideally suited for the employer who needs to bond only a few employees. The bond covers the individual employee in any position he may occupy and is not restricted as to location.

*Schedule Bond.* This form is written in two types of bond: (1) The Name Schedule Bond permits the employer to cover a number of employees under one contract instead of having individual bonds for each employee. The persons to be bonded are identified by adding their names to the schedule. The names of new employees are added to the schedule as and when they are employed, and the names of the employees who leave are removed. (2) The Position Schedule Bond provides protection against the dishonest acts of employees occupying the positions listed for the amounts stipulated for each position.

*Primary Commercial Blanket Bond.* This is particularly well suited for large concerns having many employees. This form covers all officers and employees with the option of excluding certain classes of employees if so desired.

*Blanket Position Bond.* This is also a standard form and covers all employees; no schedule or list is required, and all new employees are automatically covered. The bond provides separate coverage on each employee for a uniform amount, the net effect being the same as though a

separate bond was issued on each employee and all the bonds were for a uniform amount. Thus recovery is permitted for the full amount of the bond on each employee identified as participating in a collusive loss. In this respect, the Blanket Position Bond offers an advantage over the Primary Commercial Blanket Bond.

*Excess Coverage.* Both the Primary Commercial Blanket Bond and Blanket Position Bond contain options which provide for additional excess coverage on certain designated positions. This excess coverage is written as a position schedule forming a part of the bond and may be changed as conditions warrant without disturbing the blanket coverage applying to all employees.

*Comprehensive Dishonesty, Disappearance and Destruction Policy.* Under this

form of coverage, an employer may not only purchase indemnity for employee dishonesty but also protection for the loss of money and securities, within the premises, caused by the actual destruction, disappearance or wrongful abstraction thereof.

The employer may also purchase in the same contract coverage for the loss of money and securities outside the premises caused by the actual destruction, disappearance or wrongful abstraction, while being conveyed by a messenger. The other coverages, optional, in the same contract are for the loss of securities in a safe deposit box. He may also purchase check forgery insurance which practically every employer needs today.

—BY WALTER L. FLYNN. *Credit and Financial Management*, November, 1949, p. 12:2.

## A Check List of Coverages for Corporate Insurance Buyers

THE insurance needs of the manufacturer vary widely, depending upon the size and extent of his operations. Generally, his complete insurance requirements may be determined only by a careful survey of exposures and insurable hazards.

In making such a study of insurance needs, it may prove helpful to divide the requirements of the manufacturer into four basic groups:

Group One embraces exposures representing direct reimbursement to the assured for losses sustained of an insurable nature. These are generally based upon predetermined values, and the extent of a loss may be reasonably evaluated in most instances. The following lines of insurance may be considered as coming under this group:

*Building and Contents.* (1) Fire insurance—and those lines which may be added to the basic fire insurance policy, consisting of: extended coverage endorsement (adds windstorm, hail, explosion, riot and civil commotion, aircraft, vehicle and smoke

damage); vandalism and malicious mischief (may be added only with the extended coverage endorsement); extra expense, removal of debris, rental value, contingent liability from operation of building laws, builders' risk insurance, consequential loss or damage, leasehold interest (for tenants), improvements and betterments (for tenants), unearned premium insurance. (2) Boiler and machinery insurance, including by endorsements non-ownership (explosion), business interruption (use and occupancy), outage insurance. (3) Sprinkler leakage. (4) Glass insurance. (5) Electrical signs. (6) Contract bonds (construction).

*Vehicles.* Automobile collision; automobile fire and theft; automobile comprehensive fire and theft; aircraft hull insurance.

*In Transit.* (1) Inland marine transportation covers all merchandise (both incoming and outgoing) while in transit by railroad or railroad freight, coastwise steamer (if applicable), public truckmen, assured's own vehicle, messengers. (2) Parcel post. (3) Pattern floater. (4) Processor floater. (5) Garment contractors floater. (6) Ocean marine (import and export).

*Money, Securities & Property.* (1) Money and securities, broad form. (2) Mercantile safe burglary. (3) Messenger robbery. (4)



Interior robbery. (5) Paymaster robbery. (6) Safe deposit box burglary and robbery. (7) Mercantile open stock burglary. (8) Valuable papers. (9) Credit insurance. (10) Fidelity bonds. (11) Forgery. (12) Comprehensive dishonesty, disappearance and destruction.

All the above forms of insurance represent coverages which provide direct reimbursement to the manufacturer for losses sustained, and, in which, with the exception of fidelity and forgery, the extent of a loss may be reasonably evaluated.

Group Two represents exposures involving third-party claimants. These are generally of a legal liability nature and the extent of a loss cannot, in most cases, be predetermined. The following lines of insurance may be included in this group:

Motor vehicle liability and property damage including non-ownership and hired cars; aircraft liability and property damage; premises and operations liability and property damage; elevator liability and property damage; contractual liability and property damage; owners' protective liability and property damage; products liability and property damage; workmen's compensation; employers' liability; comprehensive liability policy.

Group Three represents voluntary assistance to others. These are principally of a social or humanitarian nature. The following forms of insurance may be considered as coming under this group:

*Group life insurance:* provides life insurance on the lives of employees for the benefit of their families.

*Hospitalization insurance:* provides payment of hospital expenses for employees and members of their families.

*Air travel insurance:* group policy covering employees for specified amount against the hazards of air travel.

*Key man insurance, life:* provides reimbursement for financial loss resulting from the death of a key man in the business, and provides a reserve fund upon his retirement from the business.

Group Four provides the protection required by the manufacturer to indemnify others. This is principally in the nature of surety bonds required to permit the manufacturers to proceed under various regulatory laws and in the performance of specific agreements. Included in this group are:

*License and permit bonds:* required in conformity with specific laws and ordinances. They vary widely, depending upon the operations of the manufacturer.

*Supply contract bonds:* frequently required by the government to guarantee that the manufacturer will fulfill the conditions of the contract for furnishing supplies.

*Customs bonds:* required by the Federal Government to meet regulations for importing certain merchandise.

*Internal revenue:* required by the Federal Government for the performance of specific regulations or the payment of Federal Excise Taxes.

*Court bond:* required by various courts of law to support litigation.

—BY ALFRED H. EDWARDS. *The Casualty & Surety Journal*, Midsummer, 1949, p. 24:7.

#### AMA SPRING INSURANCE CONFERENCE

*The Spring Insurance Conference of the American Management Association will be held on Monday, Tuesday, and Wednesday, May 22-24, at the Hotel Statler, New York City.*

## SURVEY OF BOOKS FOR EXECUTIVES

**VITALIZING THE FOREMAN'S ROLE IN MANAGEMENT.** By Glenn Gardiner and Robert L. Gardiner. McGraw-Hill Book Company, Inc., New York, 1949. 274 pages. \$3.50.

*Reviewed by Harry F. Gracey\**

The father and son team in industry, which has existed since craft days, has a counterpart on the modern scene. It is our good fortune to find such a pair in print. In this volume, the Gardiners, Glenn and Robert, demonstrate that vitalizing the foreman's role in management may be, and has been, a practical and profitable venture for many companies. Theirs is a simple, direct, and workable approach to the point under discussion. At the outset, the authors startle the reader with their theory of the foreman's importance in the industrial scene. To call the foreman "the cutting edge of the management tool" is as thought-provoking as it is trenchant.

After reading this book, a top executive who earnestly endeavors to develop his management team as an integrated "tool" can compare what he is doing with the accomplishments of other companies. By examining these experiences, he is able to discover things he may have left undone in the line of including his foremen realistically in his task force for productive action. Stating the principle that "to function as part of management, foremen must be given management work to do," the Gardiners illustrate their point by citing the achievements of many companies which are successfully practicing this theory in their daily operations.

Throughout the entire discussion, stress is placed on the fact that the foreman must be recognized primarily as the "manager of a business within a business." It is urged that he be given the responsibility and authority, within the limits of his "business," actually to perform his job as though he himself had an investment in the equipment, work space, material and labor. Anything less than this

basic assumption on the part of the top executive will, it is pointed out, nullify at once all his good intentions and gilt-edged reports to the Board of Directors, concerning the so-called complete unity of "his management team."

An undertone throughout the idea-packed chapters of the book is that of "practicing what is preached," up and down, as well as across, all lines of management. The soundness (or should we say, common sense?) of this approach is not always recognized by those in top authority. Too often the physical distances between levels of supervision widen as if the actual factory floor were viewed through the wrong end of a telescope. It is easy to forget that foremen are the "levelers of theory" by means of their own nearness to the workforce and that they alone "validate in actual practice the effectiveness of management's policies." In the chapter on the foreman's part in policy-making, the authors contend that "Foremen are victims of policy in inverse ratio to the degree of their participation in policy-making."

The purpose of the book, however, is not to convince top management that foremen should be part of management but "to describe the actual practices and programs of a number of companies in which the recognition of the foreman's importance in management is manifested." Each factor which prevents a company from developing and activating an effective program is discussed in detail. Then an antidote is presented and illustrated by accounts of experiences in progressive companies which were investigated and studied in the preparation of this book. For example, the old saw "Nobody ever tells me anything around here, I'm only the foreman" is countered by a detailed discussion of the many programs that are now in effect and that are keeping foremen well informed by smooth-functioning communication.

Another area of dissention is the autocracy of staff departments which are set up basically to serve the foreman but which, on the contrary, take every opportunity to grab his pre-

\* Director of Management Development, SKF Industries, Inc.

rogatives. The attempts of most companies to clear the atmosphere in this area have always been feeble. The Gardiners nevertheless, give proof that it can be done and has been done.

The authors have not added just another publication to the long list of management aids for vitalizing the foreman's role; they have developed a body of fact for the guidance of those who wish to practice what they preach—or would like to achieve with their own management team. Every factor discussed could be applied to each level of supervision from the foreman on up—or the president on down.

Every top executive or anyone in the organization responsible for building teamwork would profit by a careful study of the principles, factors, and sequence evolved by these two hard-hitting, practical "theorists."

**INDUSTRIAL PSYCHOLOGY.** By Thomas Willard Harrell. Ringhart and Company, Inc., New York, 1949. 462 pages. \$4.25.

*Reviewed by Charles A. Drake*

Around the concept that "Human Relations are the most important phase of industrial psychology at the present time in the United States" (p. 265), the author has organized his college text for the one-semester course in industrial psychology. The conventional 16-chapter arrangement is followed.

In the author's words (Preface, p. vii): "The basic assumption of this book is that the chief contribution psychology can make in industry is to analyze the problem of labor-management cooperation and to develop techniques which will facilitate such cooperation." This cooperation is to be effected by taking into account the data in three general areas: Individual Differences, Human Engineering, and Human Relations.

The exposition is generally well documented from the recent literature. In a few instances antiquated references are used to support dubious or trivial statements. For example, the statement "A study of labor turnover showed that the most frequent reason given for employees' quitting in a department store and in six metal-trades establishments was dissatisfaction with pay" is supported by a 1922 reference. Somewhat surprising to the reviewer is the paucity of references to materials in **PERSONNEL** and to the Personnel and Production Series publications of the American Management As-

sociation—sources which often have better and more recent documentation standing than a number of the references used.

The author has gone far beyond the factual data of psychology to draw from the fields of anthropology, physiology, economics, and sociology and often takes the lofty view of the philosopher in attempting to synthesize a system consistent with his concept of the job of the industrial psychologist. As philosopher, the author may properly demand that industrial psychology be oriented toward what he perceives as an acute social need. As scientist, he has organized his materials in an effort to meet that need.

Perhaps the author, who arrived at his majority in the rugged years of boom and bust, and who graduated from college at the bottom of the Great Depression, may correctly foresee the "wave of the future." His professional life has matured under the increasing impact of the welfare state theory and practice. He may be wisely preparing student-psychologists for careers as agents who will mediate with government sanction—and on the Federal payroll—within and between management and labor. The parallel with the "public straightener" of Samuel Butler's satire "Erewhon" is obvious, but the prospect is not humorous.

Many readers will conclude that the author's definition "Industrial Psychology is the study of human activities in an industrial civilization" is too broad to be organized into a single science and to have its findings form the basis of a single art or profession. There would seem to be ample opportunity, from a consideration of the material presented in this book, for the development of a science and an art of industrial sociology and of industrial physiology in the area of industrial management. One has only to note the proliferation of sciences and arts now involved in petroleum exploration to admit the possibility of the foregoing.

The discussion of Industrial Engineering places its emphasis on the discredited "efficiency expert" and the errors of his kind. No attention is given to the program and procedures of the Office of the Secretary of War or to the extensive program of the Bureau of the Budget, even though the former featured worker-management cooperation and both had some spectacular results in economizing manpower.

The chapter on Attitudes and Job Satisfaction is comprehensive and is especially timely in the light of the present union drive for security.

In the discussion of Mental Hygiene and Personnel Counseling, it is recommended that "Large companies should consider providing full-time counselors. Smaller companies should have their supervisors trained in counseling." Perhaps an even better case could have been made for this proposal on a joint management-union basis. Commendably, the discussion is more cordial toward the work of the psychiatrist than is usual in the writings of the psychologists.

The otherwise excellent sections on Morale and on Personnel Counseling omit any discussion of the exit interview, an omission difficult to understand in the light of the organizing theme and the major emphasis of the book.

The highly physiological subject of Fatigue has been presented seemingly to make a more comprehensive textbook. Its documentation is drawn very largely from the studies of earlier decades, while the problem itself is admitted to have mostly a historical interest.

The author has chosen to discuss Job Evaluation in a chapter on Occupational Information, a setting that permits emphasis on conventional techniques and social justice. The discussion of attitudes and motives related to the process and its eventuation in wage and salary standardization is omitted, perhaps because this is not a favorable setting. Although the author states that "No one has yet developed a method for determining its [Job Evaluation's] validity," such a consideration is no bar to a thorough discussion of the psychological implications of the procedures and their economic results.

Dr. Harrell's textbook, taken as a whole, is a worthy addition to the field, with an organizing theme which may be disputed but should not be ignored.

AFTER THE WHISTLE BLOWS. By Jack Petrill. William Frederick Press, New York, 1949. 351 pages. \$10.00.

*Reviewed by R. C. Skillman\**

*After the Whistle Blows* discusses the organization, financing, and operation of an industrial recreation program for the small and the large company and for a combination of two or more firms. Many of the seldom anticipated operational difficulties are analyzed and solutions offered. The book outlines the recreational facilities available for many types of industry in various locations. Particular stress is placed by the author on the necessity for a properly trained recreational director and staff. The chapter on Organization points out many pitfalls and the advantages in planning a program. The emphasis on athletic activities is particularly noticeable because of the book's scant attention to social, cultural, and outing activities.

Viewed as a text on the philosophy of recreation, Mr. Petrill's book is an excellent one. As a handbook for operation, however, it is somewhat lacking in modern practical techniques.

\* Assistant Director, Public Relations, Champion Paper and Fibre Company, Hamilton, Ohio.

### **NEMA Salaried Job Rating Plan for Clerical, Supervisory and Technical Positions**

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